Trade within Europe
Can the west open its doors to the east?
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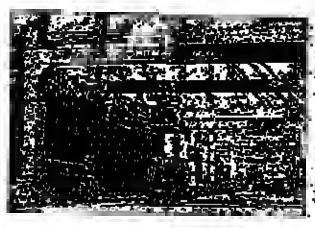

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FINANCIAL TIMES

Europe's Business Newspaper — MONDAY JUNE 7 1993 — D8523A

Clinton presses California to change tax laws

The Clinton administration is pressing California to change its company tax laws in a way that could settle the long-running dispute over its worldwide unitary tax system. The move would also raise more money for the cash-strapped state treasury. Some Californian companies are already moving strongly against the proposed change. Page 12

Major under pressure over Europe: Embattled UK prime minister John Major faces a fresh assault on his European policies when the Maastricht bill is introduced into the House of Lords. Former prime minister Lady Thatcher is expected to lead calls for a Maastricht referendum. Page 12

BA and Virgin 'dirty tricks' row: British Airways and Virgin Atlantic are closer to settling their "dirty tricks" dispute. Virgin says BA still has to make a firm offer. Page 13; Lex, Page 12

Six Chinese immigrants die: Desperate passengers tried to swim ashore after a coastal freighter seeking to smuggle 260 Chinese aliens into the US beached off New York. At least six illegal immigrants died, and the death toll is expected to rise.

Maxwell funds only £100m short: Less than £100m ($154m) in assets stolen from Maxwell pension funds remains untraced as talks intensify for out-of-court settlements to meet the shortfall. The amount outstanding is far less than feared. Editorial Comment, Page 11

European Monetary System: The market will initially focus on the peseta, amid fears that yesterday's Spanish general election could bring the Spanish currency under renewed pressure. The peseta drifted downwards during the week, after nervous trading. Strong US unemployment data on Friday caused the dollar to surge 3 pfennigs against the D-Mark at the end of last week and contributed to the D-Mark closing slightly weaker in the grid. Currencies, Page 27

EMS: Grid — Jun 4, 1993

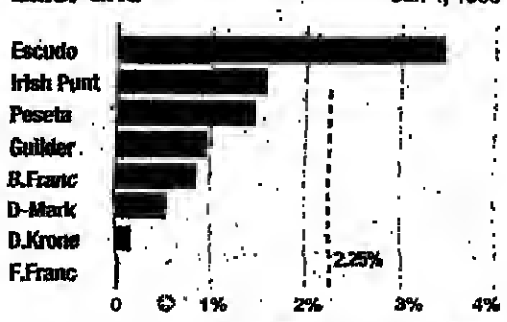

Chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. The Spanish peseta and Portuguese escudo operate with 6 per cent fluctuation bands.

Steel users bemoan US trade cases: Alleged unfair trade cases, filed by the US steel industry against 19 countries, are casting "a menacing shadow" over the US economy, according to US steel users meeting in Washington. Page 4

Sarajevo airlift resumes: The United Nations resumed its relief airlift to Sarajevo but UN military observers were again barred from the Serb-besieged Moslem enclave of Gorazde. Croatia Serbs seek link to Bosnia, Page 2

AMD loses right to Intel chips: Advanced Micro Devices, semiconductor manufacturer, suffered a serious blow when a California appeals court overturned an arbitrator's decision giving it the right to use Intel microprocessor technology. Page 13

EC to boost E European loans: The European Community plans to boost lending to support economic recovery in central and eastern Europe to Ecu1.7bn ($2bn) by the end of the year from Ecu925m at present. Page 3

World Bank official may go to EBRD: Ernie Stern, one of three World Bank managing directors, has been sounded out about a senior position at the European Bank for Reconstruction and Development with a view to strengthening the EBRD's management. Page 3; Observer, Page 11

Guatemala's new president: Guatemalans woke up to their third president in less than a week after the election by Congress of Ramiro de Leon Carpio, the human rights ombudsman. The election ends a period of constitutional crisis. Page 4

Battle for O&Y subsidiary grows: The battle for control of Olympia & York's US subsidiary intensified with a threat by John Zuccotti, head of the US operation, to resign unless the subsidiary gets an "independent" board. Page 13

Hungary nationalists break away: Hungarian nationalists led by Istvan Csurka are expected to form a breakaway far-right party after their expulsion from the governing Hungarian Democratic Forum. Page 3

Angola attack kills 99: Unita guerrillas attacked government forces in Angola's inland city of Luena, killing 99 soldiers, according to the rebel radio. Fighting has intensified since peace talks broke down last month.

Demand high for Shangri-la: Shangri-la Asia's flotation of 150m shares is expected to be oversubscribed by about 97 to 100 times, according to Schroders Asia. Page 15

Hard fought election set to result in coalition or minority government

González battles for survival

By Peter Bruce in Madrid

THE CLOSEST general election in Spain since it became a democracy in 1978 ended last night with early exit polls suggesting that Mr Felipe González was struggling to hold on to power after a dramatic collapse in support for the socialist party.

Exit polls put the socialists and the conservative People's party neck and neck and both parties claimed their own exit polls gave them the most seats.

Projected results*

Congress: 350 seats

Electorate: 31m

	Seats
PSOE (Socialists)	139-155
People's Party (centre-right)	134-148
Others	47-77

*State television exit poll 7pm local time

The election will force either of the two leading parties to govern in coalition with smaller regional parties, or as a minority government with the tacit support of the regional parties, thus breaking the country's young tradition of powerful single party administrations.

Two polls published as soon as voting ended at 8 pm gave the Socialist Workers' party (PSOE) of Mr González a slightly larger share of the vote and a handful more seats in the 350-seat Congress (lower bouse).

But a third poll gave the PP a slight edge in seats, even though it saw the PSOE winning more votes.

Tbe PP last night said it believed it had won the elections. "This will be a long night," said Mr Javier Arenas, leader of the party in the Andalucia.

"I think a new stage is opening in the history of Spanish democracy," Mr José Mafa Aznar told private Cope radio.

Mr Teófilo Serrano, a Socialist spokesman, said after the first polls that the situation was complicated. "We are going to have to wait until all the votes are counted," he said.

The campaign, in which Mr González had fought to remain in office against a background of economic recession and accusations of corruption, was bitter and ill-tempered.

Last night's election brought a dramatic change to Spanish politics, which has been dominated by single-party governments since the first democratic election after the death of the dictator General Francisco Franco in 1975.

At the margins of the larger socialists and PP, the two regional parties expected to form part of any coalition, the Basque nationalist PNV and the Catalan CiU both appeared to have strengthened their positions.

On the Left, the communist-led United Left sharply increased its vote, adding up to 6 seats to its former 17.

Voter turnout was about 75 per cent, compared with 69 per cent in the last general election in 1989.

The Socialist party said its own poll showed it had won the most

Continued on Page 12

Spain's prime minister Felipe González with his wife Carmen casts his vote in a Madrid school yesterday

UN holds talks on Somalia killings

By Michael Littlejohns, UN Correspondent in New York

THE United Nations Security Council yesterday held urgent consultations after 26 Pakistani peacekeeping troops were killed in Somalia.

UN officials called the attack on the soldiers the most calamitous single incident involving UN peacekeepers since the Congo conflict of the 1960s.

US military helicopters were later reported to have bombarded three arms dumps belonging to Mogadishu's main warlord, General Mohamad Farah Aideed, whose troops were said to have been responsible for the attack on the peacekeepers.

Mr Jamsheed Marker, the Pakistani delegate, who requested an emergency meeting of the 15-nation council of which Pakistan currently is a member, demanded resolute action, including punitive measures, against tbe Somali attackers.

"We want them to be hrought to justice; we don't want retaliation, hut justice," he told reporters.

He also suggested that officials tn charge of peacekeeping operations in Somalia would have to "beef up" the equipment available to the troops there.

The Pakistani troops were on a "perfectly legitimate" mission when they were ambushed and attacked on orders hroadcast over the radio, Mr Marker alleged. Soldiers on patrol in small groups of eight or 10 were among those killed, he said.

The Pakistani casualties included at least 50 wounded, and up to 10 soldiers are still missing, assumed to be captured, the UN said. Three US servicemen were also injured. Italian troops had to send a column of tanks and armoured cars with helicopter cover to rescue 80 trapped Pakistanis and 10 Americans from a disused cigarette factory on the outskirts of Mogadisbu.

UN sources said at least 23 Somalis died.

Mrs Madeleine Albright, the US representative, voiced "total outrage" over the incidents. She said the Security Council must "send the strongest possible signal" in response. Whatever action tbe council deemed necessary would

Continued on Page 12

Search for victory on streets of Madrid

By Tom Burns in Madrid

THERE was a long quene of elderly people lining up against the police barrier outside Madrid's swanky Palace Hotel, across the street from the parliament building, where despite the close exit polls, the Socialist party was beginning to celehrate an electoral victory.

"Only eight seats ahead?" said Mercedes Garcia, 78, who lives in a retirement home on the outskirts of the city. She had been bussed to the PSOE's end-of-election rally on Friday but took a metro to see the final celebration, if only from a distance.

"Eight seats, that's enongh," said ber companion Rosario, white-haired and also wrinkled. "We've won, we've won, we've beaten the right."

Were they worried that the Partido Popular, PP, would take their pensions away? "Yes," they said together. "The PSOE is our party, it's progress, it's the future."

But last night their concerns were focused elsewhere. "When is [prime minister] Feltpe González coming?" Mercedes wanted to know as she crowded against the barrier. "I'll be here all night waiting to cheer him as he arrives."

But inside the hotel Carmen Garcia Bloise, a veteran member of the PSOE's executive committee and an early arrival to the party, predicted: "Felipe won't come here for a few hours."

The old ladies' optimism was not matched by party activists inside the botel, although most expressed relief that there was no immediate ontright defeat.

"Yes, of course I am satisfied with the result. The right threw everything at us in the campaign and a fourth term in power, after 11 years in government, is something of a record, isn't it?" said Ms Garcia Bloise, who spent the Franco years working as an accountant for the Peugeot car company in France.

Mr Manuel Garanacho, a veteran socialist and a leader of the national woodworkers' union was more cautious. "Happy? So, so. The PSOE bas not got a majority for the working man. It is going to have to team up with the Catalan nationalists and they don't like the strike law that we agreed with the socialist party in the last parliament."

Mr Jose Maria Benegas, the Socialist party's organiser was cantionsly confident. "Tbe results are pretty satisfactory.

"The important thing is that we have won the election," he conclnded.

Swiss give vote of confidence to army in fighter referendum

By Ian Rodger in Zurich

SWISS voters have given a strong vote of confidence to their militia army, rejecting proposals to block the purchase of new fighters and to limit the army's training space.

Of those voting in yesterday's referendums 57.1 per cent rejected the proposal to put off buying fighters until 2000. Some 55.3 per cent threw out the proposal to limit the number of army training grounds to the current 40 and to prevent their expansion.

In the more important fighter vote, there were majorities in botb French- and German-speaking Switzerland, showing that the army is still one of the few institutions that unites most Swiss. Italian-speaking Ticino voted in favour of both propositions.

The results seem to reflect a renewed concern among Swiss abont their security, caused apparently by the war in Bosnia (about 500,000 ex-Yugoslavs live in Switzerland) and worrying signs of instability in neighbouring countries.

Mr Kaspar Villiger, the defence minister, said the results sbowed the strong sense of responsibility of the Swiss people.

The votes mean that the government can proceed with its planned purchase of 34 McDonnell Douglas F/A18 fighter jets at an estimated cost of SFr3.5bn ($2.46bn).

The US aircraft maker welcomed the decision, whicb will also be a boon for Swiss aircraft and component manufacturers. At least SFr2.5bn of the total cost will flow back into the country, creating 20,000 jobs.

The purchase was approved by parliament a year ago but was put on hold when the pacifist Group for a Switzerland without an Army (GSoA) gathered nearly 500,000 signatures for its fighter moratorium petition.

The government was bound to take the GSoA's initiative seriously. In November 1989, 35.6 per cent of voters supported its proposal to abolish the military altogether.

The GSoA admitted thet yesterday's result was a setback. The practical consequence will he that the government will no longer feel ohliged to give priority to other GSoA petitions aimed at cutting the military's strength.

The F/A18s are to replace the army's 36 ageing Mirage III-S fighters in the front line. The army said the radar and other avionics features of the Mirage had been surpassed by more modern fighters used by other air forces, and Switzerland had to match them. The first aircraft are to be operational in 1996.

The petition to limit training grounds was mounted three years ago by a group of citizens in north-eastern Switzerland opposed to a decision to build a huge new ground in their vicinity.

Their opposition struck a chord throughout the country in communities that have to put up with frequent, noisy and sometimes dangerous military exercises. But the army argued that it could not be constrained if it was to provide a credible defence.

						Qatar	QR12.00
Austria	Sch30	Germany	DM3.30	Lux	LFr60	S.Arabia	SR11
Bahrain	Din1.250	Greece	Dr300	Malta	Lm0.60	Singapore	S$4.10
Belgium	BFr60	Hungary	Ft172	Morocco	MDh13	Slovak Rp	KSL45
Bulgaria	Lev25.00	Iceland	IKr180	Neth	Fl 3.75	Slovenia	SLT220
Croatia	HRD2700	India	Rp40	Nigeria	Naira45	Spain	Pta200
Cyprus	C£1.00	Israel	Shk5.50	Norway	NKr16.00	Sweden	SKr15
Czech Rp	Kcs45	Italy	L2700	Oman	OR1.50	Switz	SFr3.20
Denmark	DKr15	Jordan	JD1.50	Pakistan	Rs40	Syria	S£50.00
Egypt	E£4.50	Korea	Won 2500	Philippines	Peso45	Tunisia	Din1.250
Finland	FM12	Kuwait	Fils 500	Poland	Z 22,000	Turkey	L7000
France	FFr8.00	Lebanon	US$1.25	Portugal	Esc215	UAE	Dh11.00

CONTENTS

New UK chancellor arouses curiosity in Brussels

European debut for Clarke

By Lionel Barber in Brussels

MR KENNETH CLARKE makes his European debut as UK chancellor of the exchequer at a meeting of EC finance ministers in Luxembourg today. The meeting is expected to focus on rising unemployment and the bleak outlook for Europe's economic growth.

Latest Commission forecasts indicate the EC's gross national product will shrink slightly in 1993, with only a moderate rebound next year.

This is not enough to stop unemployment in the EC rising to more than 17.5m this year and has reinforced UK scepticism about another item on today's agenda: an EC-wide energy tax. Britain, however, remains virtually isolated in its opposition.

Mr Clarke's appointment has aroused interest in Brussels, where diplomats and officials are curious about his pro-European credentials and his reported ambition to become UK prime minister.

The Danish presidency of the EC has promised to make growth and employment a priority at the Copenhagen summit on June 21-22, but today's meeting is likely to show that most member states have little budgetary room for new stimulus packages.

Mr Henning Christophersen, EC economics commissioner, will urge ministers to build on the Community's "growth package" agreed at last December's summit in Edinburgh. He is due to release official EC growth forecasts on June 16. The latest internal estimates suggest that the EC economy may contract by about 0.3 per cent, compared with an original forecast earlier this year of 0.8 per cent growth.

Recognising the tightness in member states' budgets, the Commission is looking at ways to inject new life into the Community's labour market. Among the main ideas are increasing flexibility, creating more part-time jobs and changing tax regimes.

Today's meeting will study other tax issues, including the harmonisation of VAT rates on works of art. Germany and Spain appear to have eased their opposition to Commission proposals, "but the real question is whether the British are prepared to play ball", said an EC official.

Finance ministers were originally due to discuss the UK's "convergence programme" – the plan for each member state to meet targets for budgetary discipline and non-inflationary growth in preparation for monetary union. The UK submits these plans even though it is not in the European exchange rate mechanism.

Mr Clarke has successfully requested that the UK plan is withdrawn so he can study the document. EC officials said last week that this would allow him, technically, to make amendments before re-submitting the proposal at the next meeting of economic and finance ministers.

French Defence Minister François Leotard (left) is met at Sarajevo yesterday by UN commander General Phillipe Morillon. On a visit to French troops, he said that France could provide no more United Nations forces for Bosnia. He understood the Bosnian government's anxiety about UN plans to set up safe areas for Moslems but said France had done enough for the UN already.

Croatia Serbs seek link to Bosnia

By Kerin Hope in Belgrade

AN ATTEMPT by Serbs living in Croatia to unite their self-styled republic with its Bosnian counterpart is likely to add to the difficulties of implementing the new United Nations resolution on Bosnia.

The Krajina Serb assembly decided at the weekend to hold a referendum on June 19-20 on linking with the Bosnian Serbs.

The assembly appeared already so confident of a "yes" vote that it announced that the capital of the new state would be the Bosnian Serb stronghold of Banja Luka.

The decision appeared to mark a victory for hardliners over a more moderate faction which has been holding talks with international mediators on autonomy for Krajina within Croatia.

Mr Radovan Karadzic, the Bosnian Serb leader, has encouraged closer co-operation between what he calls "the western Serbs" in reaction to international pressure on President Slobodan Milosevic of Serbia to distance himself from the Bosnian Serbs.

Mr Karadzic also said that the United Nations resolution "will not be harmful to the Serbs". He promised to co-operate with the UN on setting up safe areas for Moslems in Bosnia.

A member of the Moslem-led Bosnian government, Mr Ejub Ganic, condemned the resolution at the weekend, saying its adoption showed that the international community had become "a second aggressor" against Bosnia, together with Serbia.

A diplomatic source in Belgrade said the resolution would not help to achieve a long-term solution in Bosnia.

"Without a political framework for a solution, the safe havens for Moslems will become expanded refugee camps, with a danger of becoming permanent," the source said.

Italians likely to punish old parties at the polls

By Haig Simonian in Milan

ABOUT a quarter of Italian voters went to the polls yesterday in municipal and regional elections that could provide the first indication of the country's political mood ahead of a possible general election in the autumn.

Attention will focus on mayorial and administrative elections in Milan, Turin and Catania, where candidates reseoting new political alliances, largely independent of the established parties, are expected to triumph.

With polling open until 10pm last night, official results will not be known until about midday. Indications from exit polls were also unavailable until after the end of polling, but the strong turnout by 7pm implied a record.

The elections involved 10.5m voters in 1,092 towns, six provinces and the Friuli-Venezia Giulia region.

In recent months voters have been fed an almost daily diet of revelations of political corruption, involving some of the country's best known politicians and severely tainting the main political parties, notably the Socialists and Christian Democrats.

The elections have broken new constitutional as well as political ground, with polling being held on one day, rather than carried over to Monday. The communal elections also mark the first time Italians vote directly for their mayor, while in many parts of the country, the polling system has been altered to create more stable administrations by giving the leading groups a clear majority on local councils.

The breakdown in traditional party allegiances and the present transitional nature of Italian politics was underlined by the quantity and variety of candidates. Twelve contenders were battling for the mayorship of Milan, while more than 1,000 candidates were contesting the 60 seats on the city council.

The mayoral battles in Milan, Turin and Catania are widely expected to go to a second round run-off on June 20 between the two most popular candidates, as none of the leading contenders is expected to obtain an absolute majority on the first ballot.

However, published opinion polls already suggest that, in each city, candidates for the established political parties are set to take a drubbing.

Mr Nando dalla Chiesa, one of the two leading candidates in Milan, is a left-wing sociologist and MP supported by La Rete (The Network), the reformist party led by Mr Leoluca Orlando, and the Democratic Party of the Left (PDS), the former Communists. He is likely to face a run-off against Mr Marco Formentini, the candidate of the autonomist Lombard League.

The favourite in Turin is Mr Diego Novelli, a former mayor supported by La Rete and the hard-line Restructured Communism movement, whn is likely to face Mr Valentino Castellani, a candidate backed by a local voters' alliance and the PDS, Republicans and Greens.

The Catania poll is also expected to involve a run-off between candidates backed by parties from outside the established party spectrum, in this case the Democratic Alliance and La Rete respectively.

France set to accept oilseed pact

By David Buchan in Paris

FRANCE yesterday seemed poised to accept the EC's draft agreement with the US limiting European oilseed output, but its ministers were maintaining anti-American rhetoric to placate French farmers.

Mr Nicholas Sarkozy, ministerial spokesman for the government, said yesterday there was no question of "sacrificing French farmers' interests". But several ministers have said the oilseed deal, oegotiated with more controversial farm export subsidy cuts last November, is not had for French and EC interests. Limiting oilseed cultivation to 5.12m hectares in the Community would not cramp French farmers, they concede. But France will ask for a review of the restraint on industrial oilseed growth.

The main sticking point when EC ministers meet in Luxembourg tomorrow may be France's desire to trade its acceptance of the oilseed deal for a firm EC declaration that the export subsidy curbs be renegotiated by Washington.

More arson attacks on Turkish homes in Germany

By Quentin Peel in Bonn

AT LEAST three arson attacks on Turkish homes in Germany were reported at the weekend, in spite of protests against racism organised in many towns across the country.

The main demonstration, in the town of Solingen, near Cologne, where two Turkish women and three girls died in a fire last weekend, ended in violent clashes between rival Turkish groups and the police on Saturday night.

Chancellor Helmut Kohl was greeted with jeers when he attended the re-opening of the restored cathedral in Berlin, and cries of "Where were you in Solingen?"

The wave of protests since the latest killings have refuelled the political debate on the status of foreigners in Germany, with growing demands for dual nationality status to be granted to long-term residents.

Mr Klaus Kinkel, foreign minister, and Mr Otto Lambsdorff, the leader of his Free Democratic party, have both lent their support for change in the nationality law, in spite of strong resistance from the Christian Democratic Union and the Christian Social Union, the other two parties in the governing coalition.

The latest attacks took place in Hattingen on the Ruhr, only 30km from Solingen, and in Konstanz on the southern border with Switzerland, where both a Turkish restaurant and a private home shared by Turks and Germans were attacked.

There was some disappointment at the weekend turnout of demonstrators against the latest racist incidents. Some 12,000 people marched through the centre of Solingen, in a peaceful weekend protest which only turned violent at the end of the day, when rival Turkish groups began fighting. The police barricaded some 200 Turkish youths into the city centre for eight hours, before arresting more than 30 in the early hours of the morning.

Mr Alexander von Stahl, the federal prosecutor, confirmed on Saturday that four suspects were being being held for the Solingen killings. The four are said to have carried out the arson attack in a fit of drunken rage, after being thrown out of a local bar, and are not known to have any links to extreme right-wing political groups.

The head of Germany's internal security service, Mr Eckart Werthebach, warned at the weekend that the latest incidents could see an upsurge in violence between extreme Turkish and German nationalist groups.

Croatia Serbs seek link to Bosnia

NEWS: INTERNATIONAL

World Bank official may go to EBRD

By Peter Norman

MR ERNIE STERN, one of the three managing directors of the World Bank, has been sounded out about a senior position at the European Bank for Reconstruction and Development with a view to strengthening the EBRD's management.

It emerged yesterday that the idea was floated some time ago after recent disclosures of extravagance in the fitting out of the EBRD's London headquarters and of cost overruns in the bank's travel budget through frequent use of private chartered jets by Mr Jacques Attali, the EBRD president.

It is thought that the Croup of Seven leading industrial countries, which together have a majority stake in the EBRD, would like Mr Stern to take on a chief executive role at the bank. The EBRD was set up two years ago to belp former Communist countries introduce market economies.

Baroness Chalker, the UK overseas development aid minister, who is also Britain's deputy governor at the EBRD, is understood to have contacted Mr Stern on a recent trip to Washington. Officials close to the bank's governing board said it was not yet clear whether Mr Stern would leave the World Bank to join the EBRD in London. The idea was "still in play", they said.

Mr Stern's name is not the only one to have been considered by the C7, which wants to give the international institutions and industrialised and former Communist countries that own the EBRD better control over the bank.

The EBRD's annual meeting at the end of April decided thet Mr Attali should continue as bank president despite evidence of extravagance. But some shareholders appear to expect that decision will be reviewed if necessary following a special audit of the bank's spending, which is expected to be completed in about six weeks' time.

The US, the EBRD's higgest single sbareholder, is making no secret of its wish to see Mr Attall leavs and is irritated that tbe bank's big European shareholders have not yat decided that he should be made to quit.

Mr Attali is said to be fighting hard for his job. One C7 official said last week that he was "hanging on like glue".

Mr Stern was offered a senior post as deputy to Mr Attali when the EBRD was set up two years ago. He decided to stay in Washington, partly it was thought for family reasons and partly because he suspected that he would not be allowed much authority with Mr Attali as president.

Dignity dies in Russian democratic dealings

The conference called to draft a new constitution has begun in chaos, writes Leyla Boulton in Moscow

ACRIMONIOUS scenes over the weekend at President Boris Yeltsin's Constitutional Convention do not bode well for its ability to hammer out a new democratic constitution for Russia.

Mr Ruslan Khasbulatov, the parliamentary speaker, stormed out with about 70 of the 700 participants, declaring the gathering illegal. Mr Yuri Slobodkin, author of an alternative Communist draft, was carried out kicking and screaming by security guards.

Those leaving with the speaker included leaders of the local parliaments of Russia's 89 regions and republics.

The scuffles have made it less likely that Mr Yeltsin will obtain endorsement for the constitution to be enacted through constitutional means. This provides for a final draft to be hammered out by the Constitutional Convention by June 16, and then initialled by the regional and repuhlican leaders.

The latter would then ask the Congress of People's Deputies to endorse the new constitution, which until now it has refused to do because it would be dissolved in the process. Elections to a new bicameral parliament, which would replace both the full and standing parliaments, would be held no later than October. If this plan is rejected by parliamentary deputies, Mr Yeltsin has said he will resort to other unspecified methods.

Mr Khashulatov's behaviour was dismissed as a "provocation" by Mr Yeltsin, who had valiantly tried to keep the meeting dignified. He told delegates "our descendants will not forgive us... if we do not reach the agreement which is our main task". The new constitution, providing a clearer division of powers and a stronger executive, was essential to replace an old system incompatible with reforms and democracy, he said.

However, while many members of the existing parliament are co-operating with him and some are uncertain whether to back Mr Khasbulatov in a fight he is likely to lose, the president cannot yet count on a majority of Congress.

This puts Mr Yeltsin at the mercy of republican and regional leaders, who are seeking significant concessions diluting plans for a federal state in return for endorsing the constitution.

Mr Kirsan Ilyumzhinov, the young millionaire president of the republic of Kalmykia, said yesterday he wanted his own draft constitution to be discussed, adding that Moscow should no longer levy taxes directly from subjects of the Russian Federation. This would be a first step on the road to the country's collapse, even though Mr Ilyumzhinov's draft proclaims the Federation to be united and indivisible.

A group of regional leaders also demanded more subsidies from central government and that the central bank continue covering debts accumulated between inefficient enterprises.

The undignified circus at the convention was symptomatic of the point-scoring gripping Russian political life. On Friday, the head of the president's control department beld a news conference to report on his investigation into corruption allegations by Vice-President Alexander Rutskoi.

While the official, Mr Alexei Ilyushenko, did not get round to the most serious allegations involving some of Mr Yeltsin's closest aides, he said most of the vice-president's accusations of embezzlement by commanders of the Russian army had been unsubstantiated.

He added that be was also trying to investigate a business alleged to have benefited from corrupt practices.

Simultaneously, parliament voted to ask the Constitutional Court to protect the vice-president's rights. His limousines, staff, and official functions have been systematically whittled away by Mr Yeltsin since making those allegations. Mr Rutskoi's post will also be abolished under the new constitution.

An unwitting party to the chaos was Mr Lloyd Bentsen, US treasury secretary, who found himself squeezed into the president's and prime minister's timetable just as the convention was about to start. "He [President Yeltsin] is very confident they are going to win those reforms and that there will be no stepping back," said Mr Bentsen, leaving the Kremlin as the delegates were arriving. He told Russian leaders the country had to get inflation under control and proceed with structural reforms in order to benefit from large-scale western aid.

Hungarian nationalists to form breakaway party

By Nicholas Denton in Budapest

HUNGARIAN nationalists led by Mr Istvan Csurka are expected to form a breakaway far-right party after being expelled formally from the governing Hungarian Democratic Forum at the weekend.

Within the Forum, Mr Csurka has already built up the Hungarian Justice parliamentary platform and the Hungarian Way mass movement. Now he is expected to fuse these into a formal political party.

The nationalist leader can hope to take about half the 29 MPs of Hungarian Justice with him, leaving Mr Jozsef Antall, the moderate prime minister, with a fragile parliamentary majority.

Mr Csurka, an author, is regarded as the spiritual father of the Forum. He also commands the passionate support of many party activists. The weekend's defections threaten to weaken the Forum's grassroots campaign to retain power in the general to elections to be held before next spring.

Aides of the prime minister expect to limit the far-right share of the vote to less than 10 per cent. Poor turnout at last Friday's demonstration for the return of Hungarian territory lost after the first world war suggest there is little support for extreme nationalism.

Government officials also believe that the support they lose on the right can be regained in the centre and that the expulsion of Mr Csurka makes it easier for the Forum to find new coalition allies.

The Forum government can also begin to erase the international embarrassment suffered through association with Mr Csurka ever since last August when the author published a controversial nationalist manifesto.

EC to step up E Europe loans

By David Marsh, European Editor

THE European Community plans to increase its lending to support ecooomic recovery in central and eastern Europe to Ecu1.7bn (£1.34bn) by the end of the year from Ecu925m (£731m) at present.

The lending, by the European Investment Bank, the EC's long-term financing institution, forms part of Community efforts to speed-up the integration of eastern and western Europe. The lending details will be announced at the EIB's annual meeting in Luxembourg today.

EC foreign ministers gather in Luxembourg tomorrow for a two-day meeting to discuss European Commission plans to accelerate trade liberalisation with eastern Europe.

Only Ecu180m of the Ecu925m in loans assigned for Bulgaria, the Czech republic, Hungary, Poland, Romania and Slovakia have so far been dispersed, underlining the EIB's caution in the region.

Nonetheless, the EIB's disbursement rate seems slightly higher than that achieved by the European Bank for Reconstruction and Development, the east-west financial organisation. The EBRD last year disbursed Ecu126m out of Ecu1.2bn in approved loans and equity injections for projects in eastern Europe and the former Soviet Union.

The two sets of figures are not directly comparable, however, since the EBRD is still starting its operations and also dispensing funds across a far wider area of the former Soviet empire than the EIB.

Of the latter's Ecu925m in signed loans, Ecu305m is destined for Hungary, with Ecu290m earmarked for Poland, Ecu120m for Romania, Ecu115m for Bulgaria, Ecu57m for the Czech republic and Ecu38m for Slovakia. Additionally, the EIB plans to lend Ecu200m over three years to Estonia, Latvia and Lithuania.

The EIB, which last year lent the record total of Ecu17bn inside and outside the Community, raises funds on international capital markets. These are lent on with a small interest rate margin, resulting in the current lending rate for 10-year D-Mark loans of a highly competitive 6.9 per cent.

At today's annual meeting, attended by EC finance ministers, the EIB will announce that it is well on the way to implementing the Ecu5bn lending plan to spur EC growth decided at last December's Edinhurgh summit.

The EIB board has approved Ecu2.2hn for 30 transport, infrastructure and environment projects, with another Ecu440m worth of deals due to be discussed today.

The EIB has also concinded preparations for an investment fund to guarantee loans for transport and infrastructure ventures and for small and medium-sized EC companies.

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'Unfair' claims of dumping or subsidies blamed for price rise

Steel users condemn US trade cases

By Nancy Dunne in Washington

ALLEGED unfair trade cases, filed by the US steel industry against 19 countries, are casting "a menacing shadow" over the American economy and spurring inflationary price rises, according to US steel users who met in Washington at the weekend to publicise their complaints.

Mr John Griffin, president of the American Institute for International Steel, a group of 200 steel traders, said prices had already risen 20 per cent this year and that another increase was expected in July.

Last year the big domestic steel producers filed 84 cases, claiming dumping or subsidies. Duties were levied in 72 cases after the US Commerce Department announced initial findings in January affirming the complaints. Final Commerce Department rulings are to be announced on June 22.

The International Trade Commission, the country's fair trade watchdog, will then have 45 days to conclude if the subsidised steel has harmed US industry.

"American manufacturers requiring steel products with unique physical and chemical characteristics have trouble finding them in sufficient quantities from domestic suppliers," Mr Griffin said. "Infrequent users of steel are unable to place orders."

One of those users is Mr Roy Herman, president of the UNF Leavitt division, UNR Industries, which makes tubing. He said high prices had made the company's products less competitive. "We are seeing a surge in offerings of foreign-produced tubing, which for the most part, except for Canada, has almost been non-existent over the last few years."

With steel companies raising prices or reducing shipments to maximise sales of higher-value-added products, his company is "being played like a yo-yo in terms of availability and delivery... it is nearly impossible to plan our production in an efficient manner."

The users say they employ 30 times more US workers than do the steel companies.

Under attack from the users, Mr Roland McDonald, a Commerce Department official, insisted that Congress left his department little discretion in administering dumping and countervailing duty cases. "The US industry is entitled to relief from unfair trade practices," he said.

The department has initiated 34 "suspension agreements," paving the way for negotiations with 10 countries on pacts providing for monitoring of higher import prices.

Mr Joseph Papovich, a deputy US trade representative, said the "unfair trade" problem must be handled at its core by negotiating a Multilateral Steel Agreement. MSA talks are expected to resume late this month or in early July.

The US is insisting that an MSA achieve the following:

- Eliminate non-tariff barriers and tariffs;
- End all trade-distorting subsidies;
- Discipline the use of anti-competitive practices, such as restricted distribution systems;
- Establish an effective dispute settlement mechanism;
- Require individual producers to repay any illegal subsidies they receive.

David Dodwell, World Trade editor, adds: A broad-ranging inquiry into the effect on the US economy of anti-dumping actions is "to be reformulated and resubmitted" to the ITC, Mr Mickey Kantor, US trade representative, said in Paris last week.

Controversy was stirred in January this year when Mr Kantor withdrew a request to the ITC for an anti-dumping inquiry made by his predecessor, Mrs Carla Hills, just days before she left office.

Mr Kantor insisted in Paris that the request had not been withdrawn but that the letter requesting the inquiry had been called back "to make the inquiry broader and more comprehensive".

Mickey Kantor: comprehensive

Texas triumph: a jubilant Kay Bailey Hutchison after her landslide by-election win over Democrat Bob Krueger

Texas voters rebuff Democrats

By George Graham in Washington

MRS Kay Bailey Hutchison, Texas's Republican state treasurer, won a landslide victory in a by-election on Saturday for one of the state's national senators. Her election will narrow President Bill Clinton's already shaky Democratic majority in Congress and perhaps decisively mark the big south-western state's move away from its Democratic party traditions and into the Republican camp.

Mrs Hutchison won by a two-to-one margin over the Democrats' Bob Krueger, who was appointed as interim senator when Mr Lloyd Bentsen left his seat to join the Clinton administration as Treasury secretary.

Senator Robert Dole, leader of the Republicans in the Senate, said the vote would send shock waves through Washington and warn members of Congress against voting for higher taxes.

The Democrats now have a notional 56:44 majority in the Senate, but with questionable friends such as Senator Richard Shelby of Alabama or Senator David Boren of Oklahoma Mr Clinton must in fact work with a narrower margin in seeking to win passage for his legislative agenda.

If other senators do indeed read the vote as a message against taxes, it could make it harder to push through the Clinton budget package, including the controversial energy tax which is stalled in the Senate.

Not all the blame for Mr Krueger's defeat can be pinned on Mr Clinton, however. The candidate himself, who has now lost three Senate elections, was a self-confessed "lousy politician" incapable of appealing to conservative white voters or of exciting more liberal minorities.

Mr Clinton did not campaign hard in Texas during last year's presidential campaign, virtually conceding the state to then-president George Bush. Mrs Hutchison's sweeping victory, even in former Democratic strongholds such as the southern region of the state, suggests severe problems for the party in statewide elections next year.

Local Democrats are pinning their hopes on the popularity of Governor Ann Richards, but are divided over whether her talents would be best used running for a second term as governor or competing for Mrs Hutchison's Senate seat, which she must contest again in 1994 as she is serving out the rump of Mr Bentsen's term.

Rarefied air to Bolivian election

By Christina Lamb in La Paz

A FORMER military dictator, a mining tycoon, a brewing magnate and a TV talk show host were the main candidates tussling for votes yesterday in Bolivian presidential elections, which looked set to have a record turnout.

Oxygen may have been in short supply at the 12 de Octubro polling station in the poor El Alto township above La Paz which, at 13,000 feet, claims to ba the world's highest voting booth. But enthusiasm for democracy was not.

Swarms of people queued to vote, the women in their distinctive bowler hats, embroidered shawls and multi-layered skirts. Most did not seem to care who won, enjoying instead the power of voting in their third election since 1985 in a country until recently so riddled by coups that it was considered the most unstable in Latin America.

Waiting to cast his vote, Mr Vladimir Benita, a stallholder, said: "It's important that we vote so that we get a good government. We're proud to be a democracy after so many years of dictatorship." There were some dissenting voices. Mr Zairo Villasuelo, a carpenter, said: "I wouldn't vote if it wasn't compulsory. Politicians are all corrupt."

These are the first Bolivian elections to be held under an independent electoral court. Although President Jaime Paz Zamora said yesterday that Bolivians should be proud of the most transparent elections in the country's history, there were last-minute charges of fraud due to a surge in the number of registered voters to 2.4m against less than 2m in 1989 and the breaking down of the much-hailed computerised counting system, threatening delays in results.

Fourteen parties were fielding candidates, but the real fight was between 62-year-old Mr Gonzalo Sanchez de Lozada from the main opposition party and 67-year-old General Hugo Banzer, a former military dictator and now the rightist candidate of the ruling party. US-educated Mr De Lozada owns the country's biggest private mining company and, as planning minister from 1985 to 1989, fathered a stabilisation plan which reduced inflation from a staggering 26,000 per cent to just 15 per cent.

There was little difference in their campaign platforms, both favouring a continuation of the austerity programme. Mr Zamora said: "There were 14 candidates but not one opposed the direction we have taken."

The last opinion poll put Mr De Lozada slightly ahead, but no one was expected to secure a majority. This would leave the balance with Mr Max Fernandez, the brewing magnate, and Mr Carlos Palenque, the talk show host.

Under Bolivia's strange electoral system the candidate with the most votes may not win, as Mr De Lozada learnt in 1989 when he topped the polls but was not named president. The decision rests with Congress, which will hold a secret vote on August 6.

Venezuela's new president adopts a cautious line

By Joseph Mann in Caracas

SENATOR Ramon José Velásquez, 76, was sworn in at the weekend as Venezuela's interim president to complete the last eight months of the five-year presidency of Mr Carlos Andrés Pérez, who was suspended from office last month to face corruption charges.

A widely respected historian, journalist and public figure, Mr Velásquez will serve until the troubled, oil-exporting republic elects a new president in national elections next December.

Mr Velásquez said he would consult members of the cabinet and experts before making decisions on government policy. It was not immediately clear if he planned changes in the unpopular free-market policies initiated by Mr Pérez four years ago.

He said he would do everything within his power to solve problems troubling Venezuelans, but warned thet his government would not be a "miracle factory".

Venezuela was passing through a difficult period of growth and transformation, and fiscal and economic problems were "rooted in the payment of its external debt and a tradition of [government] wastefulness."

Admitting that he was not an economics expert, Mr Velásquez said he would set up permanent advisory councils on economic and financial fears, among other things. He also asked professionals who normally shunned political jobs and government posts to provide advice on key economic issues.

Members of the two majority political parties said they would not place members in tha new cabinet, thus giving Mr Velásquez the opportunity to seek independent political figures. However, the two parties pledged to support the new president in approving key economic legislation that has been mired down in Congress.

Mr Velásquez, who worked for several years as a newspaper reporter and editor, has made only one change in his cabinet so far. On Saturday he named Mr Ramon Espinoza, head of a group that promotes Venezuelan nationalism, minister of the presidential secretariat and presidential chief of staff.

The new president's victory was largely due to the support of Venezuela's two largest political parties – Democratic Action (AD), of which Mr Velásquez is a member, and the Christian Democrat Copei party – which together hold about 81 per cent of the seats in the upper and lower chambers of Congress.

Rights activist to lead Guatemala

By Edward Orlebar in Guatemala City

GUATEMALANS woke up yesterday to their third president in less than a week after the unanimous election by Congress of Mr Ramiro de Leon Carpio, the human rights ombudsman, ended a constitutional crisis that had thrown the country into political chaos.

Mr De Leon, 51, won an uncontested second-round of voting after the withdrawal of Mr Arturo Herbruger, the 81-year-old president of the supreme electoral tribunal, who trailed by 64 to 51 votes in the first round. He will serve until January 1996 to finish the term of former president Jorge Serrano, who fled the country after failing to hold on to the authoritarian powers he had assumed on May 25.

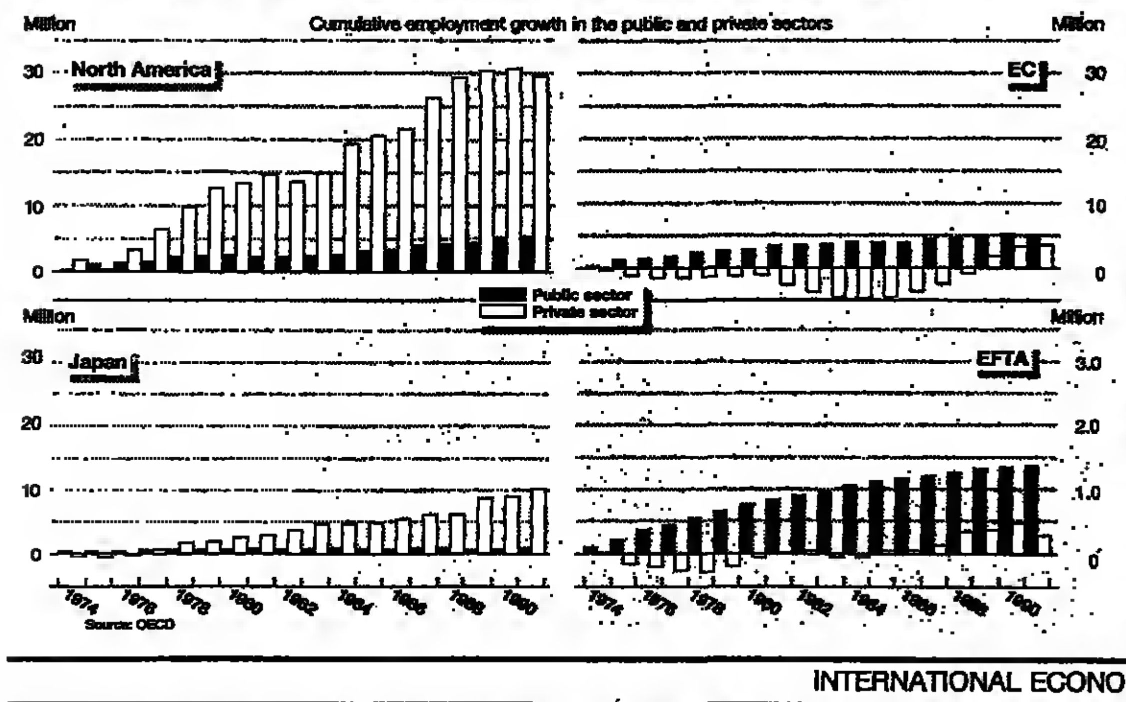
The election of Mr De Leon is being seen as a bold step by Congress, who chose the more controversial of the three candidates put forward by a broad coalition of business leaders, political parties, unions and popular organisations.

"Ramiro was not the candidate of the large party, the business sector, or the military," said Mr Gabriel Aguilera, a political analyst. "This is Congress responding to the street."

Mr De Leon has been a sharp critic of the powerful Guatemalan security forces for their widespread abuse of human rights. But on Saturday be praised the army for its role during the last few days in returning Guatemala to constitutional government, despite the military's initial backing for Mr Serrano's so-called self coup, and its later support for the illegal bid of Mr Gustavo Espina, the former vice-president.

Mr De Leon will be taking power at a difficult time. The credibility of state institutions is low and business confidence has been undermined by months of instability. It remains unclear how a much called-for purge of Congress will be effected.

Employment creation in the public and private sectors



European Commission looks for more jobs

NOTHING is more conducive of short-term thinking than a recession. For European governments, tormented by the cocktail of slow growth and high real interest rates that the Bundesbank continues to serve up, it is tempting to see a cut in German interest rates as an answer to all their ills. But the European Commission cannot be accused of short-termism. Its new "Community-wide Framework for Employment" should help focus members' minds.

The Commission document, essentially an agenda for future study, makes two powerful points. First, the EC has a low rate of employment, particularly for women, compared with other industrialised countries – less than 60 per cent of its population of working age are in work, compared to more than 70 per cent in the US, Japan and the Efta countries.

Second, the job creation required to raise this low level of employment will not be achieved by economic growth alone. It will require as yet unspecified supporting policies, instead, if growth is to be more "employment-intensive". Europe's record of job creation has been poor not only over the past three years but over the past two decades. Employment in North America has nearly doubled since 1960, but has grown by a mere 10 per cent in the EC.

Why has the EC's employment record been so bad? Some clues are to be found in the OECD's interim report on employment and unemployment, released last week. While weak on diagnosis and cures, the OECD report was strong on description of trends in unemployment and employment, particularly the comparative record of private and public sector job creation since the 1973 oil shock.

The reason for the superior employment performance of the Efta countries, compared to the EC, is apparent from the charts. It is public sector job creation. The number of public sector jobs created in the EC failed to compensate for the loss of private sector employment in the years to 1985, as the charts show. But while tha Efta countries share the EC's dismal private sector job creation, the creation of public sector employment, the most important feature of their employment record over the past two decades, dwarfs changes in private sector employment.

Rapid private sector job creation is, by contrast, the reason why total employment growth in North America has outstripped EC job creation. Both the EC and North America have created a little over 5m public sector jobs since 1974. But while the EC has created only 3.1m private jobs, the US and Canada have created 29.8m.

This comparison, Commission officials acknowledge, provides some unpleasant fat for EC members to chew over. First, the US achieved this private sector employment growth, in part, because it has pursued a policy of labour market deregulation which does not sit easily with continental Europe's social democratic aspirations. Second, this rapid US job creation has entailed relatively low productivity and real wage growth, compared to Europe.

The US record makes the Commission's task – to find ways of simultaneously boosting job creation, real incomes and worker protection – look horribly ambitious, as a senior Commission official, responsible for the EC study, readily admits. "More jobs mean lower growth of incomes per jobs – unless we produce miracles."

Edward Balls

INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT

Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1985=100. Quarterly and monthly data for retail sales and industrial production show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The unemployment rate is shown as a percentage of the total labour force. Figures for the composite leading indicator are end-period values.

	US Retail sales volume	US Industrial production	US Unemployment rate	US Vacancy rate indicator	US Composite leading indicator	Japan Retail sales volume	Japan Industrial production	Japan Unemployment rate	Japan Vacancy rate indicator	Japan Composite leading indicator
1985	100.0	100.0	7.1	100.0	102.7	100.0	100.0	2.6	100.0	96.5
1986	105.5	101.0	6.9	98.0	107.8	106.5	99.7	2.8	94.3	105.4
1987	108.4	105.9	6.1	105.5	109.6	113.8	103.1	2.9	108.3	115.4
1988	112.1	111.6	5.4	106.1	114.0	122.8	112.9	2.5	135.9	122.7
1989	114.8	114.5	5.2	99.8	112.7	132.8	119.9	2.2	147.1	126.2
1990	115.0	115.7	5.4	84.5	108.8	142.0	125.3	2.1	149.7	124.1
1991	112.7	113.5	6.7	62.0	114.4	145.0	128.1	2.1	144.1	122.8
1992	117.8	115.3	7.3	60.4	118.8	140.3	120.2	2.2	124.5	123.4
2nd qtr.1992	2.6	2.0	7.4	60.5	116.1	-3.5	-6.2	2.1	127.2	122.3
3rd qtr.1992	4.0	0.9	7.5	60.1	116.7	-3.8	-6.1	2.2	121.2	122.8
4th qtr.1992	7.0	2.2	7.2	61.8	118.9	-5.0	-7.7	2.3	116.3	123.1
1st qtr.1993		4.4		62.2	121.7		-5.1			
May 1992	2.8	3.3	7.4	61.3	116.3	-1.0	-9.7	2.1	125.4	122.5
June	2.3	1.5	7.6	60.7	116.1	-6.5	-5.0	2.1	126.3	122.3
July	3.0	2.2	7.5	59.9	116.4	-1.0	-7.9	2.2	122.8	122.1
August	4.4	1.9	7.5	61.2	116.4	-4.8	-8.1	2.2	119.7	122.1
September	4.8	0.8	7.4	59.3	116.7	-5.4	-5.9	2.2	121.2	122.8
October	6.8	2.3	7.3	60.6	117.7	-1.8	-8.5	2.3	117.8	123.1
November	6.8	3.2	7.2	62.4	119.6	-5.7	-9.8	2.3	111.5	122.9
December	7.7	4.0	7.2	62.3	119.6	-7.4	-9.2	2.4	119.7	123.1
January 1993	4.4	4.8	7.0	60.4	121.4	-3.5	-8.7	2.3	110.4	124.0
February	3.2	4.4	6.8	63.5	121.8		-6.8	2.3	113.5	125.1
March		4.1	6.9	62.8	121.7		-2.0			
April		3.5		62.9			-3.8			

	Germany Retail sales volume	Germany Industrial production	Germany Unemployment rate	Germany Vacancy rate indicator	Germany Composite leading indicator	France Retail sales volume	France Industrial production	France Unemployment rate	France Vacancy rate indicator	France Composite leading indicator
1985	100.0	100.0	7.1	100.0	105.0	100.0	100.0	10.2	100.0	102.1
1986	103.4	102.2	6.4	136.4	104.9	102.4	101.1	10.4	107.2	109.2
1987	107.4	102.6	6.2	149.4	106.1	104.5	103.1	10.5	117.7	108.5
1988	110.5	106.3	6.2	164.7	112.1	107.9	107.3	10.0	134.8	113.7
1989	114.1	111.4	5.6	219.5	115.0	109.5	111.3	9.4	161.1	113.5
1990	123.5	117.2	4.8	261.0	115.7	110.1	112.9	8.8	166.0	108.3
1991	130.5	120.7	4.4	270.8	112.9	109.7	113.2	8.4	129.8	109.3
1992	128.0	119.1	4.9	260.3	106.1	108.9	113.1	10.2	110.0	107.1
2nd qtr.1992	-4.3	-1.0	4.7	272.5	111.8	-0.2	0.7	10.2	108.1	109.8
3rd qtr.1992	-1.8	-1.3	4.8	259.9	109.2	-0.4	-0.2	10.2	109.8	108.4
4th qtr.1992	1.3	-4.6	5.1	230.8	106.1	-1.4	-2.2	10.4	101.7	107.1
1st qtr.1993		-10.4		210.3					96.5	104.8
May 1992	-4.1	0.8	4.7	272.5	112.2	-1.1	0.1	10.2	103.2	109.8
June	-6.0	-3.4	4.7	268.4	111.8	-1.6	0.3	10.2	115.2	109.6
July	-4.0	-2.2	4.8	264.7	111.2	-2.6	-0.8	10.3	111.3	109.3
August	-1.4	-0.7	4.8	261.5	110.8	-0.3	-0.6	10.2	111.1	108.8
September	0.4	-1.0	4.9	252.5	109.2	1.9	0.5	10.2	107.1	108.4
October	-1.9	-3.6	5.0	240.3	106.1	0.1	0.4	10.3	105.2	106.6
November	0.8	-5.8	5.1	229.8	106.8	-5.2	-3.3	10.4	101.9	104.8
December	5.0	-4.3	5.2	220.9	108.1	1.0	-4.0	10.5	98.2	107.1
January 1993	-7.4	-9.1	5.4	212.7	105.6	-0.1	-5.1	10.5	96.9	106.4
February	-4.2	-11.8	5.5	209.5	104.9	-4.0	-2.4	10.8	96.5	105.8
March	-2.0	-8.5		205.7		-4.4	-2.8	10.7	95.9	104.8
April		-7.7		206.2		2.2				110.0

	Italy Retail sales volume	Italy Industrial production	Italy Unemployment rate	Italy Composite leading indicator	UK Retail sales volume	UK Industrial production	UK Unemployment rate	UK Vacancy rate indicator	UK Composite leading indicator
1985	100.0	100.0	9.6	104.0	100.0	100.0	11.2	100.0	101.8
1986	105.8	104.1	10.5	110.8	105.2	102.4	11.2	116.1	105.1
1987	112.1	106.9	10.9	113.0	110.7	105.7	10.3	141.2	109.2
1988	108.0	114.2	10.9	117.9	117.8	109.5	8.6	144.3	107.3
1989	116.9	118.7	10.8	116.1	120.1	109.8	7.1	124.7	106.1
1990	114.3	118.0	10.3	112.3	121.1	109.3	6.8	98.1	102.8
1991	110.8	115.4	9.8	115.1	119.5	106.1	8.7	68.7	108.6
1992		113.6	10.6	111.5	120.4	105.7	9.9	66.7	111.9
2nd qtr.1992	9.3	-0.7	10.0	112.8	1.1	-0.2	9.7	68.7	109.5
3rd qtr.1992		-2.1	10.1	111.5	0.6	-0.3	10.1	64.9	108.8
4th qtr.1992		-3.6	8.3	111.5	1.6	0.6	10.4	62.3	111.0
1st qtr.1993			6.1		3.3			71.4	114.1
May 1992	19.3	1.1	n.a.	113.8	1.8	0.4	9.7	68.7	109.2
June	-4.7	-3.6	n.a.	112.8	0.6	-2.3	9.8	67.1	109.5
July	2.3	-0.2	n.a.	112.4	-1.1	-1.3	10.0	68.3	109.0
August	1.3	-1.8	n.a.	111.8	1.0	0.2	10.1	65.7	108.6
September		-4.4	n.a.	111.5	2.0	0.1	10.2	60.7	108.8
October		-1.4	n.a.	111.2	2.1	0.6	10.2	59.5	109.7
November		-5.7	n.a.	111.4	1.6	0.4	10.4	61.1	110.3
December		-4.4	n.a.	111.5	1.0	0.7	10.6	66.1	111.0
January 1993		-8.8	n.a.	111.7	3.0	1.5	10.7	69.5	112.2
February		-4.3	n.a.		2.7	1.8	10.6	74.2	113.2
March		-4.9	n.a.		4.0	1.5	10.5	76.5	114.1
April			n.a.		2.5			75.5	

All series seasonally adjusted. Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA. Retail sales volume: data from national government sources except Japan and Italy (value series deflated by OECD using CPI). Refers to total retail sales except France and Italy (major outlets only) and Japan (department stores only). Industrial production: data from national government sources. Includes mining, manufacturing, gas, electricity and water supply industries except Japan (mining and manufacturing only) and UK (also includes construction industries). Unemployment rate: OECD standardised rate which adjusts as far as possible for the different definitions of unemployment used in official sources. Vacancy rate indicator: relevant vacancy measure divided by total civilian employment, expressed in index form. Derived from OECD series. US – help-wanted advertising, Japan – new vacancies, Germany and France – all jobs vacant, Italy – no data available, UK – unfilled vacancies. Composite leading indicator: OECD data. Each is a combination of series, cyclical fluctuations which usually precede cyclical fluctuations in general economic activity.

هكذا من الأصل

US fears flood of new China slaves

Louise Kehoe and **Tony Walker** report on California's latest immigration problem

IMMIGRATION officials in California fear that thousands of illegal Chinese emigrants may be on board ships headed for the west coast of the US, following the apprehension of about 500 Chinese landing along the coast over the past two weeks.

Two trawlers, each carrying a human cargo of about 150 Chinese immigrants packed into the holds, were seized earlier this week as they landed at fishing harbours near Monterey and San Francisco. The coastal vessels are believed to have picked up their passengers five days earlier from offshore "mother ships" which crossed the Pacific.

Last month, in an even more brazen attempt to smuggle people into the US, the Pai Sheng, a Chinese freighter, sailed under the Golden Gate Bridge right into San Francisco Bay to drop off about 270 passengers at a disused city pier. Most were detained after a chase by police and immigration agents through city parks and streets.

These incidents are further evidence of what US authorities say is a large-scale smuggling operation with suspected links to Asian organised crime rings in the US and Hong Kong.

The immigrants, most of them men in their 20s, pay fees of between $20,000 (£13,000) and $40,000 for their passage to the US, according to investigators. They scrape together about $1,000, typically borrowed from relatives, to board the ships, and are then indebted for the balance of their "fare".

Most of the illegal immigrants set off from the coastal Chinese provinces of Fujian and Guangdong. Many, however, come from China's hinterland where people feel they are being left behind by the economic boom in more prosperous areas of the country. A widening economic gap between country and city is contributing to the desperation of many young Chinese.

Although they come to the US seeking jobs and economic prosperity, the immigrants instead become slaves to their smugglers and many resort to crime to pay off their debts, according to the Federal Bureau of Investigation.

"They are selling their souls. What are these people going to do to pay off the smugglers?" asks Richard Held, a FBI Special Agent in San Francisco. "Does that mean moving heroin or cocaine? That is a distinct possibility."

The recent influx has raised suspicions in the US of complicity by the Chinese government in the human trafficking. But in Beijing officials deny "turning a blind eye" to illegal emigration. "The Chinese government has all along been opposed to illegal emigration and has adopted a series of measures to stop it," said Mr Wu Jianmin, the Chinese foreign ministry spokesman.

Mr Wu insisted that Chinese security organisations had "intensified their efforts" to stop illegal organisations trafficking in immigrants.

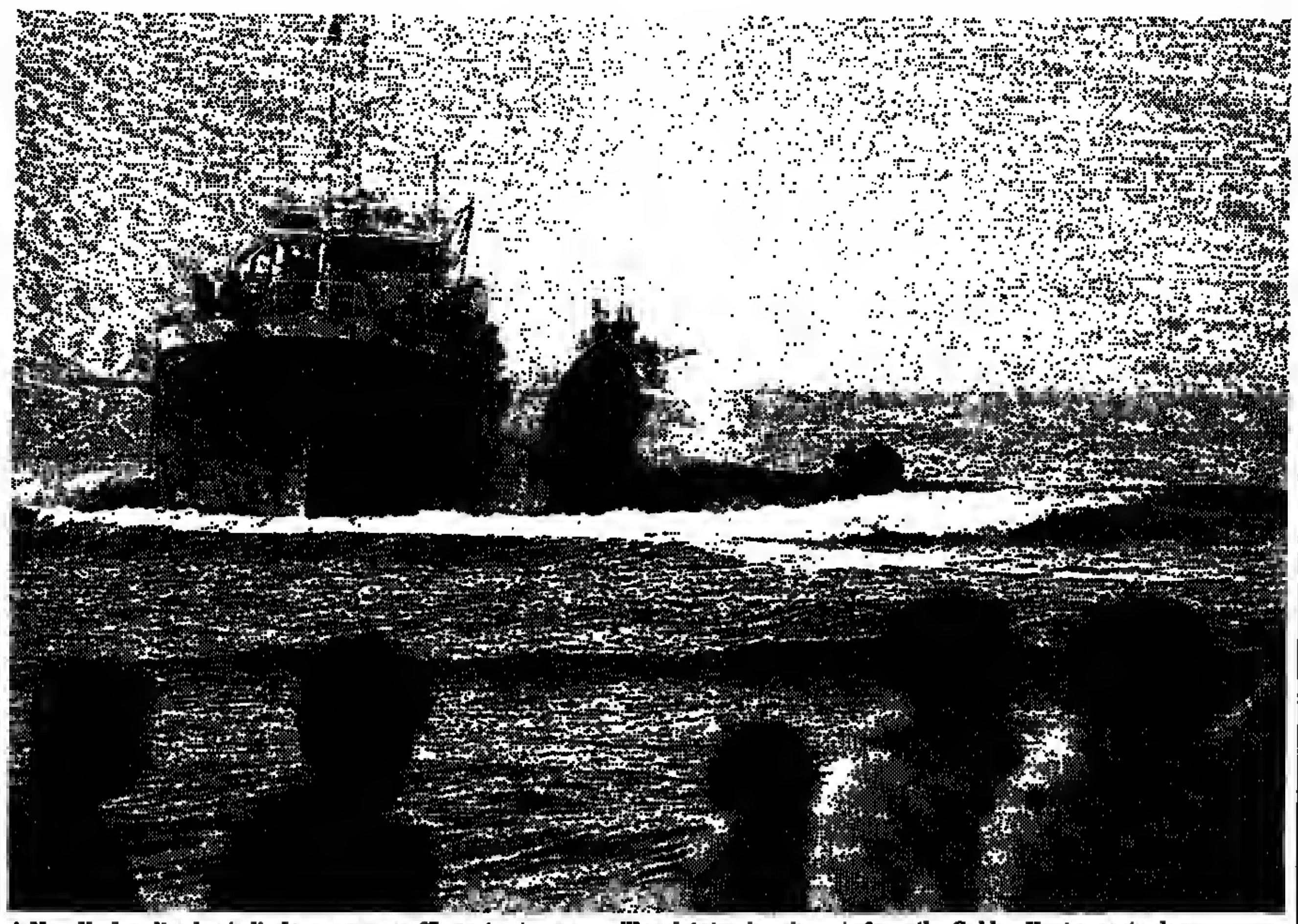
However, some of the immigrants landing in San Francisco this week spoke of paying additional fees to bribe Chinese government officials to let them leave the country, according to US investigators.

With millions of dollars being extorted from the passengers of the Chinese smuggling ships, it seems unlikely that the practice will end soon. So far this year, the US Coast Guard has detained over 1,600 illegal Chinese immigrants, more than twice the number in 1992.

The rising numbers could, however, reflect a change of route, rather than a growing volume of illegal immigrants. US investigators speculate that the smugglers are now cutting ont "middle men" in other countries and attempting to maximise their profits by landing their passengers directly on US shores.

Chinese officials charge that the willingness of some countries (including the US) to grant "political asylum" to Chinese emigrants is encouraging human smuggling.

Indeed, US immigration lawyers representing some of the passengers of the Pai Sheng say that they will seek asylum and note that the judicial process may take as long as 10 years, giving their clients time to seek legal US resideocy.



A New York police boat climbs a wave as officers try to remove illegal Asian immigrants from the Golden Ventra yesterday

Six die as freighter grounds off NY

By Nikki Tait in New York

AT LEAST six people died early yesterday morning after a freighter, believed to be carrying hundreds of illegal Chinese immigrants, ran aground close to Rockaway beaches in the Queens horough of New York City.

The grounding of the freighter, the "Golden Ventra", occurred shortly after 2am yesterday. Hundreds of Chinese passengers plunged into the chilly waters and swam about half a mile to the shore.

According to the emergency services, who reached the scene shortly afterwards, two individuals were known to have died on the beach, and another two in hospital later. Two hodies were also washed ashore.

One emergency official said that by mid-morning, the number known to be injured stood at around 275. In most cases, they were suffering from exposure or hypothermia.

However, at this stage, officials had no firm indication of the number of people who had been aboard the vessel, and it was feared that the death toll might mount.

Coast Guard spokesman Rick Larrabee told news agencies that preliminary interviews with the passengers and 13-member Indonesian crew indicated there were between 289 and 305 people aboard the 150-foot freighter when it floundered off a beach about 15 miles (24 km) from Manhattan.

Interpreters who were called to the scene said some of the passengers claimed to have been aboard the freighter since February.

Law authorities were still deciding yesterday how to respond to the disaster. One member of the US Attorney's office said officials were still trying to determine which individuals were responsible, and that prosecutions could follow.

Mr William Slattery, New York district director for immigration and naturalisation, said the immigrants were mostly Chinese from Fukien province who had paid up to $30,000 each to come to the US "for the opportunity to work".

Mr Slattery hlamed Chinese organised crime based in Hong Kong and New York as being behind the "the business of carrying human flesh for profits".

He said the Golden Ventra was the 24th vessel intercepted in the New York area since August 1991 that had been carrying between 200 and 300 people each.

Although illegal Chinese immigration is known to be a problem in New York City, the issue has received less attention recently than on the west coast.

NEWS IN BRIEF

Arabs optimistic on peace talks

ARAB parties to the Middle East peace talks convened in Amman yesterday for a co-ordination meeting before the tenth round of negotiations with Israel, due to begin in Washington on June 15, **James Whittington reports from Amman.**

The meeting was opened by Jordan's new prime minister, Abdul-Salam Al Majali, who also holds the foreign affairs portfolio. It was attended by foreign ministers from Syria, Lebanon and Egypt and Palestinian representatives.

In contrast to previous Arab co-ordination sessions, all parties agreed to continue with the talks. In an upbeat inauguration statement, Dr Majali, Jordan's former chief peace negotiator, re-affirmed the Arabs' commitment to the peace process.

He said later that Jordan and Israel were very close to agreement and was optimistic about a comprehensive settlement soon. "Progress should be and will be made on the Palestinian-Israeli track and on the Syrian and Lebanese because on the Jordanian track we have almost finalised and finished with our agenda," he said.

The ninth round of talks ended last month with Palestinian accusations that the US had reneged on promises made to bring them back to the negotiating table after a delay of four months.

Kuwait condemns five Iraqis

Five Iraqis were sentenced to death in Kuwait yesterday on charges relating to Iraq's seven-month occupation of the emirate, **Reuter reports from Kuwait.**

The five were convicted of trying to recruit Kuwaitis to join Iraq's ruling Baath party following the August 1990 invasion of the emirate, according to the official Kuwait News Ageny, Kuna.They were also found guilty of trying to weaken Kuwaiti resistance to the occupation.

Moslems 'hunted Israeli police'

Israel's police chief yesterday said a group of captured Moslem fundamentalist guerrillas hunted policemen and had killed at least three since December, **Reuter reports from Jerusalem.**

He said the group had killed at least five Israelis since December, including the policemen.

Prime Minister Yitzhak Rabin announced late on Saturday the capture of 120 activists in the Moslem fundamentalist Hamas movement, including a four-member group that kidnapped and killed border policeman Nissim Toledano on December 12.

Mongolia chooses a president

Mongolians began voting yesterday in the country's first direct presidential election, **Reuter reports Ulan Bator.**

A total of 1,183,000 voters were eligible to cast ballots in 1,535 polling stations scattered across the central Asian state, still struggling with the ecoonmic turmoil that has followed its decisiou to drop communism. Political analysts expect the election to produce a narrow victory for incumbent President Punsalmaagiyn Ochirbat. Final results should be known by Thursday.

China rules out big devaluation

China has ruled out a hig devaluation of the official yuan exchange rate and denied rumours of plans to abolish foreign exchange certificates for foreigners, **Reuter reports from Beijing.**

An official with the State Administration of Exchange Control said last week's move to lift price ceilings at forex swap centres – which led to a sharp drop of the yuan against the dollar on those markets – did not mean Beijing was planning further large currency adjustments.

Heseltine told to clarify role in Nadir case

By David Owen and John Murray Brown in Istanbul

BRITAIN'S opposition Labour party yesterday called on Mr Michael Heseltine, trade and industry secretary, to take clarify his part in attempts to help Mr Asil Nadir, the former chairman of Polly Peck International (PPI).

It emerged at the weekend that Mr Heseltine had admitted intervening with another government minister over the handling of the prosecution of the businessman who jumped bail last month and flew to northern Cyprus.

Mr Robin Cook, Labour's trade spokesman, urged Mr Heseltine to move ahead with proceedings to ban Mr Nadir, founder of the Polly Peck empire, as a UK company director. There was no longer any purpose in postponing proceedings pending a trial. Any delay would only "deepen the doubts about Asil Nadir's relationship with this government", Mr Cook said.

Mr Nadir is wanted in Britain on 13 charges of theft and false accounting at PPI.

The department of trade and industry said at the weekend that Mr Heseltine recalled somebody approaching him about concerns over the way the Serious Fraud Office was handling Mr Nadir's case and that he had passed those concerns on to Sir Nicholas Lyell, the attorney-general.

To the best of his recollection, Mr Heseltine had never met Mr Nadir. The identity of the person who approached him has not been disclosed.

Mr Heseltine is the third minister – after Mr Michael Mates, Northern Ireland minister, and Mr Peter Brooke, heritage secretary – to have been caught up in the row over Mr Nadir. Mr Mates has admitted having meetings on the subject with the attorney-general.

Mr Cook said yesterday: "It is bad enough that a junior minister like Michael Mates should have taken up cudgels for Asil Nadir. It is breathtaking that the very cabinet minister with responsibility for company laws should put in a word for a man charged with breaking them.

"Mr Heseltine's job at trade is to make sure company law protects the innocent, not to make representations to protect a private individual charged with defrauding the public."

Contacted in Cyprus last night, Mr Nadir refused to comment on the reports. But he said that be hoped "everything would be clearer by the end of the month".

Government postpones environment agency plan

PLANS to set np a new environment agency have been put off by the government because there is not enough time in the next session of parliament for the legislation to create it, writes Alison Smith.

The decision means the Bill will not be passed until 1995, bringing a further delay to fulfilling the Tories' election promise in this area.

The Conservative manifesto pledged to establish an agency which combines the functions of the National Rivers Authority, the Inspectorate of Pollution and the waste regulation function of local councils. But postponing the bill is a sign that ministers believe "green" issues have fallen down the political agenda, well below law and order or education.

The green hill had originally been pencilled in for the current legislative session, but a row between the departments of environment and agriculture over the role of the agency put it to the back of the queue for parliamentary time.

Sales recover at Leyland Daf Vans

By Andrew Adonis

LEYLAND Daf Vans, a division of the Anglo-Dutch vehicle maker which went into receivership in February, said yesterday its sales had recovered strongly since a management buy-out rescued the company from receivership two months ago.

The Birmingham-based manufacturer saw half its market share disappear after its Dutch parent group sought protection from its creditors earlier this year.

Mr Allan Amey, managing director and chief executive, said yesterday the company, that it had now made up nearly all the lost ground.

Figures for May, the first full month's trading since the buy-out of the vans division, showed the company's market share, which had slumped to below 7 per cent, had risen to 14.4 per cent. That compared with an overall figure for 1993 of 15.6 per cent.

"The increased share is a very positive trend and puts us back where we need to be," said Mr Amey.

"There is no doubt many of our customers have held back until the management buy-out was completed and we are now seeing our future order book grow," he added.

● A management buy-out at Leyland Daf Trucks, the Lancashire-based truck assembly division of the Anglo-Dutch vehicle manufacturer, is expected to be agreed later this week in spite of weekend reports that Mr Ian McKinnon, a former director of the company, was about to make a rival offer.

Receivers Arthur Andersen are understood to be close to an agreement on the details of the sale with the buy-out team, which is supported by £5m of equity capital from Barclays Development Capital.

Although a bid by Mr McKinnon might feature a larger "headline" price for the truck division, it is unlikely to be considered viable by the receivers.

"Something totally unexpected would have to go wrong in the next few days for the buy-out not to go ahead as planned," ona industry observer said yesterday.

Under the terms of the proposed sale to the buy-out team, led by Mr John Gilchrist, former managing director of the assembly plant, the Leyland site in north west England would be acquired by Lancashire Enterprises, the development arm of Lancashire County Council.

The assembly plant would be purchased by the buy-out team.

Survey confounds old image of poor record in industrial expertise

UK skills training increases sharply

By Robert Taylor, Labour Correspondent

BRITAIN bas experienced a dramatic upswing in training during the past five years with almost two thirds of the workforce increasing tbe level of skill they use in their johs, according to a survey commissioned jointly by the government and industry.

The Policy Studies Institute, which conducted the survey, said improvements in training were linked to statistics showing that more than 50 per cent of all employees now use computers or automated equipment at work.

The institute found that 54 per cent of employees received training over tbe past three years compared with only a third who had in 1986. The increase in skills was particularly sharp among technicians and supervisors.

The survey, which confounds some of the conventional views of industrial skill levels in Britain, also found that 65 per cent of employees wanted future training although only 54 per cent of them thought they were likely to get it.

Other key findings in the comprehensive study of the world of work, the first of its kind in Britain, include:

● Workers feel their jobs are more stressful than five years ago with 54 per cent saying stress levels had increased since 1988 and 31 per cent reporting significant levels of stress as a result of their work.

● Job insecurity is more widespread than in the past particularly among professional management and skilled manual workers; there was greater insecurity among men than women.

● There is considerable frustration and dissatisfaction among many workers at the lack of responsibility they feel they are given by their employers. Just over half the sample believe they should have more say in decisions relating to changes in the organisation of their work.

● While 43 per cent of employees still belong to unions, 59 per cent said unlons were present in the organisations in which they worked. Only 9 per cent felt their employers were trying to discourage union membership.

● The majority of workers feel committed to rather than alienated from the enterprises they work for but only 29 per cent of them would turn down a job that offered more pay to stay with their current employer.

● More than over a quarter of employees receive some form of incentive pay and 53 per cent have formal appraisals of their work annually.

The survey was condncted between May and September of last year based on a random sample of 3,855 people currently in work aged between 20 and 60 with a 72 per cent overall response rate.

The world of work

Job security: what the workers think — Compared with five years ago (%)

Professionals and managers	[illegible]	[illegible]
Lower non-manual workers	[illegible]	33
Technicians and supervisors	[illegible]	[illegible]
Skilled manual	28	[illegible]
Semi and unskilled manual	[illegible]	[illegible]

Periods of job-related training — Percentage reporting

Ongoing	[illegible]
Up to one week	12
Over one week, up to four weeks	6
Over four weeks, up to 26 weeks	7
Over 26 weeks, up to 52 weeks	6
Over one year, up to two years	4
Over two years	[illegible]
No training	50
Total	100

Benefits available to employees — % of employees saying benefit available

Occupational pension scheme*	[illegible]
Sick pay*	57
Time off for domestic problems:	
- with part of full pay	51
- unpaid	[illegible]
Subsidised or free meals	31
Maternity pay*	[illegible]
Goods or service at discount	25
Recreation or sports facilities	[illegible]
Use of a company car or van	20
Private health scheme	[illegible]
Free transport/help with travel costs	18
Accommodation or housing	[illegible]
Life assurance	17
Finance or loans (eg house purchases)	15
Career break schemes	11
Childcare assistance	[illegible]

* beyond basic state scheme

Source: Employment in Britain Survey

Britain in brief

Union warns of second BA strike

Air travellers could face another airport strike this week if talks over pay and conditions break down today, the GMB general union has warned.

Mr David Warburton, national officer of the union, said yesterday that his 300 white-collar members at Gatwick airport, who include flight controllers and computer staff, were still "very much in dispute" with British Airways even though a similar dispute with the TGWU transport union had been resolved.

The dispute revolves around BA's new subsidiary company at Gatwick, BA EOG, which offers lower pay and different conditions to other parts of the group.

Fresh bid on Ulster talks

Northern Ireland Secretary of State Sir Patrick Mayhew is making fresh efforts to restart talks between Ulster's four main constitutional parties, officials at the Northern Ireland Office confirmed yesterday.

A series of meetings with leaders of the has been fixed and draft proposals which be hopes could form the basis for a resumption of negotiations are to be put before each of the party leaders at separate meetings. The Irish government has not agreed to the formula and is working on its own set of proposals.

Fingerprint tenders invited

The Home Office is within weeks of seeking tenders for the UK's first comprehensive national automated fingerprint recognition system.

It has chosen the privately held computing services company, Computer Management Group, to help translate the requirements of the 43 police forces in England and Wales which will use the system into a technical specification and to provide quality assurance.

The Home Office has been working with the US Federal Bureau of Investigation to develop technology for automated fingerprint recognition.

Demand for credit grows

Demand for consumer credit rose across a range of business sectors in April, a study by Infolink, the credit information organisation, shows today.

The figures suggest that consumer activity is mounting, said Dr Brian Bailey, Infolink chairman, although it would be necessary to wait for information on the volume of new credit over the coming months to determine the real strength of recovery.

Loans sought for the purchase of new cars showed a year-on-year increase of 9.2 per cent in April according to the survey.

High mileage on UK roads

Britain has more vehicles in use per mile of road than any European country except Italy, according to the British Road Federation in its Basic Road Statistics 1993 report.

As a result, UK highways are "crumbling". About 5,000 miles of UK road need urgent repair work this year and a further 3,700 miles will wear out in the next four years. The British vehicle-road ratio is more than 107 to the mile, a little ahead of Germany and the Netherlands and behind only Italy (156 to the mile).

Forest views for government

The Forestry Commission is today asking for the views of interested parties on financial incentives for planting trees in Britain. This marks the widening of its review of forestry which has hitherto been conducted behind closed doors. The commission is launching a rapid consultation exercise, asking for submissions by the end of July.

MANAGEMENT

Alan Pike asks if health authority reforms have reduced or increased the potential for mismanagement

Calling the NHS to account

There are no sessions entitled "Mismanagement, Negligence and Waste" on the agenda for this week's annual conference of the managers who run the National Health Service. But these topics will dominate much of the informal discussion.

When Sir Duncan Nichol, NHS chief executive, addressed the Institute of Health Services Management conference last year he warned his staff away from introducing "macho management" personnel styles to the service. It would not be surprising if this time he delivered a far sterner lecture on public-sector probity and ethics.

Sir Duncan has been compelled recently to make some uncomfortable appearances before the Commons public accounts committee, trying to explain the waste of at least £20m in the Wessex Regional Health Authority and £10m in the West Midlands.

The committee has heard tales of conflicts of interest, irregularities in the awarding of contracts and repeated failures of managerial and financial controls.

Behind the specifics, a series of still bigger questions await answering. These relate to the quality of accountability procedures in the NHS and whether lay members of health authorities and trust hospital boards, appointed to represent the public interest, are exerting sufficient check on full-time managers.

Both the West Midlands and Wessex affairs originated before the 1991 NHS reforms, which were designed to make the service more market-based. They have provoked a debate over whether the new structure has reduced the potential for undetected mismanagement, or increased it.

Virginia Bottomley, health secretary, has set up a review of NHS management structure which is due to report next month. She is under pressure to make the service more flexible through further decentralisation. But both the health secretary and her review group recognise that – welcome as relaxation of central controls might be in terms of releasing managerial talent and making the NHS more market-driven – any changes will have to stand the test of public accountability.

There are tales of conflicts of interest and repeated failures of managerial and financial controls

District auditors' inquiries in the West Midlands and Wessex have generated some headline-making reports, such as the expenses of management consultants in the West Midlands – employed to recommend ways of saving public money – which included hired aircraft and lavish entertainment. More mundanely, but in many ways more seriously, the reports contain examples of scrutiny and accountability procedures that did not work.

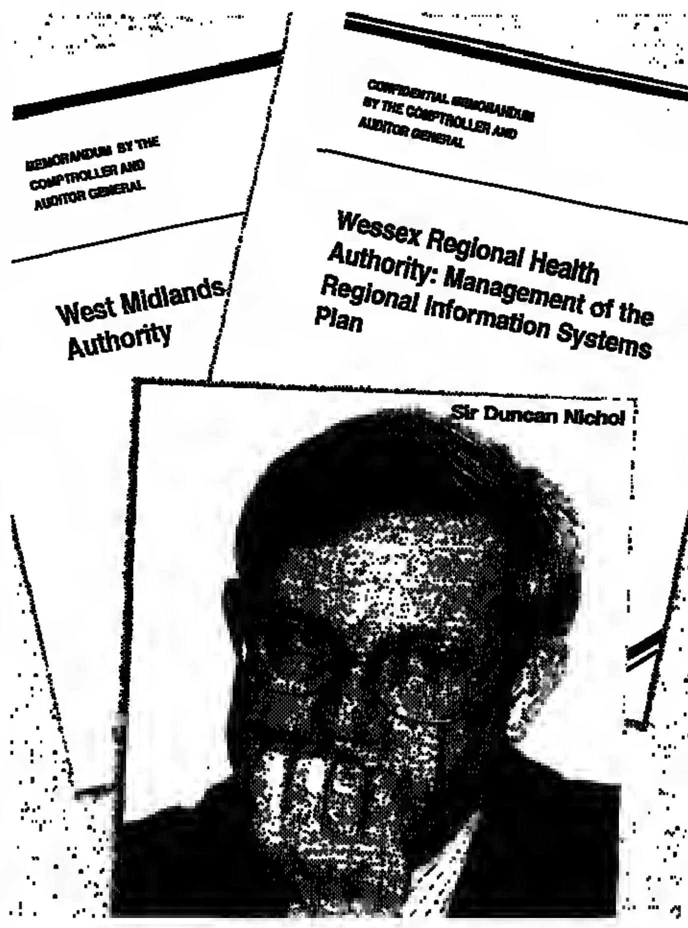
Take the West Midlands' separate, regionally managed services division and the panel set up to form a link between its director and the health authority board. According to the auditor: "The board relied on the panel to control the director. The chairman of the panel regarded its role merely as a sounding-board for the director.

"The director ignored the panel and did not report to the regional health authority board. The regional health authority chairman and members of the board said they did not know what was going on in respect of the supplies contract. The director continually asserted that his action had regional health authority support."

Another auditor's report describes a meeting at which the Wessex Information Group awarded a computer systems contract to an Andersen Consulting/IBM consortium. The meeting was inquorate – only one member of the group, plus the then chairman of the health authority in an *ex officio* capacity, was present, but it nonetheless resolved to award the contract.

Two versions of the minutes were prepared. One, distributed only to those who had attended the meeting, recorded the decision to award the contract to Andersen Consulting/IBM. The second version, circulated to absent members, did not. It was the second version that formed the basis of the agenda for the next health authority meeting: the authority was not formally informed that the contract had been awarded until after it had been signed.

A similar failure of lay members to regulate the activities and enthusiasms of individual senior managers also played a part in the problems leading to the collapse of the London Ambulance Service's computerised despatch system.



Sir Duncan Nichol

An official inquiry in February concluded that, while lines of accountability looked secure on paper, the ambulance service board "was not given, nor did it seek" sufficient information to exercise its responsibilities for managing the service. After publication of the highly critical report, board members blamed the unco-operative attitude of a particularly determined chief executive.

The government's 1991 reforms of the NHS hava made health authorities smaller and more businesslike. Sir Robin Buchanan, the present chairman of Wessex, has said that members of his old-style authority treated it like a committee, while the new non-executive members felt firmly part of the management process.

This was certainly the intention of the reforms. "Working for Patients", the government white paper that introduced them, set out to end a system in which "many members, such as those appointed directly by local authorities or on the advice of trade unions and professional bodies, usually regard themselves as representatives".

Today's non-executive members of health authorities and trusts are appointed for their skills and experience, with some regions advertising for trust board members to attract the widest range of applicants.

Critics of the changes fear, however, that individual appointees risk finding themselves in a weak and lonely position if they try to challenge senior managers who are excessively secretive, domineering or idiosyncratic in style. Although the presence of nominees from local authorities and other bodies sometimes politicised old-style health authorities, the nominees could at least call for the backing of their sponsoring organisations in an argument.

New procedures are in place in the West Midlands and Wessex aimed at preventing future problems and the Department of Health is trying to apply stronger national guidelines. Sir Duncan has asked the Audit Commission to give increased attention to probity issues when auditing health service accounts; the commission has also launched its own investigation into corruption in local government and the NHS. Accountability issnes have been included on the agenda of the review of NHS structure currently taking place.

Both the department and the National Association of Health Authorities and Trusts are examining ways of enhancing the development and training of non-executive members of health authorities and trust boards. The association has told the structure review that it supports further decentralisation of deciston-making, but accepts that more must be done to ensure non-executive board members discharge their duties in a way that "commands high confidence with the public".

The association is urging all anthorities to state publicly which areas of decision-making must be taken by the full board and publish standing orders and financial instructions. It also believes boards should have audit and remuneration sub-committees chaired by non-executive members and is working with Manchester University's health services management unit on the development of a "company secretary" role in health authorities and trusts.

"It is essential that the board as a whole, rather than just the chairman and the chief executive, is held and seen to be held to account for the authority or trust's activities and performance," concludes the association's evidence.

Getting to this point is a priority for the NHS as pressure grows to increase the day-to-day freedoms of district health authorities and trusts. Even the most ardent advocates of devolution know that it will not work if, whenever there is a serious problem, the people down the line say no one told them what was going on.

Seduced by the customer cult

By Adrian Furnham and David Pendleton

The cult of the customer has become the mantra of today's business gurus. Their chant and their cant is: "If we don't look after our customers, then someone else will." The faithful respond antiphonally: "We must always remember that our customers pay our salaries." Unfortunately, in common with all mantras, this one's strength lies more in its repetition than in its inherent truth.

While it is usually true that successful businesses look after their customers, it is not true that all businesses which look after their customers are successful. Laker Airways looked after its customers with enthusiasm, but went the way of all flesh nonetheless.

A decade ago, the chant was of profit and profitability. Cost centres became profit centres. The high priests were the grey men of the bottom line – the auditors who devoted themselves to beating their rewards into profit shares and their careers into catching crooks.

A decade earlier the gospel was of job enrichment and job satisfaction. The belief was that the contented worker would become the affluent worker.

All of these gospels had a kernel of truth but, to correct what they thought were earlier imbalances, the business gurus successively created new imbalances. Gurus and consultants often maintain that what has gone before is fashion, but what they bring is truth. They usually succeed in creating little more than a new fashion.

All businesses will fail in the long term unless they pay adequate attention to the legitimate requirements of their three principal stakeholders – their shareholders, staff and customers.

The shareholders own the business, have invested in it and are concerned that it should be profitable. In this way, the business will produce for them an adequate return on investment, by monitoring and managing their costs and their revenues.

The staff serve the customers and are stewards of the company's resources. The quality of a company's employees is a critical factor in creating business success. Their morale is the indicator of their commitment. But morale is a delicate plant which dies in some climates, thrives in others and needs constant attention. Its condition needs to be monitored constantly but it is unclear who should carry out the monitoring and how it should be done.

Personnel departments in most businesses need to be involved but they usually fail to provide adequate data to support decision-making about personnel matters. They frequently fail to provide insight into the factors which need to be monitored such as the staff's perception of how they are treated and how that treatment is changing over time.

Ultimately, customers provide profits for the shareholders and salaries for the staff. For too long customers were neglected, abused or forgotten. Their place in determining the success of businesses has now been restored hut it would be inappropriate to concentrate on their needs at the expense of others. Regular monitoring of customers' feelings about the company's products or services can be carried out by market researchers but it is vital to ensure that tha data are directed towards decisions which need to be taken, rather than meandering into empty description.

For 2000 years, the Christian church has been teaching the difficult concept that God is a trinity – three in one. If there is a God of business, he or she also has three manifestations: the shareholders, the customers and the staff. They are different hut equal and all demand similar attention. Those who emphasise the worship of any one over the others are today's false prophets.

Adrian Furnham is head of the business psychology unit at University College London. David Pendleton is a business psychologist and a director of Kaisen Consulting in Bristol.

CONSTRUCTION CONTRACTS

Norfolk water project

SIR ROBERT McALPINE has just commenced work on a 2.4km long sea outfall (2Km below low water level) at West Runton, Norfolk for Anglian Water Services.

The contract which is worth about £5.3m forms part of Anglian Water's scheme for Waste Water Management in north Norfolk and is due for completion in June 1994.

Oil jetties study

RENDEL PALMER & TRITTON has been awarded a contract by the Kuwait National Petroleum Company (KNPC). It entails the inspection of three major oil jetties, a small boat harbour and six undersea pipelines at Mina Al-Ahmadi, Shuaiba and Mina Abdullah.

Refurbishment work

Lynton has started the £1.3m refurbishment of Melbourne House, its 50,000 sq ft property at Aldwych, London WC2. The project is being managed under a construction management contract which has been awarded to TEAM SERVICES.

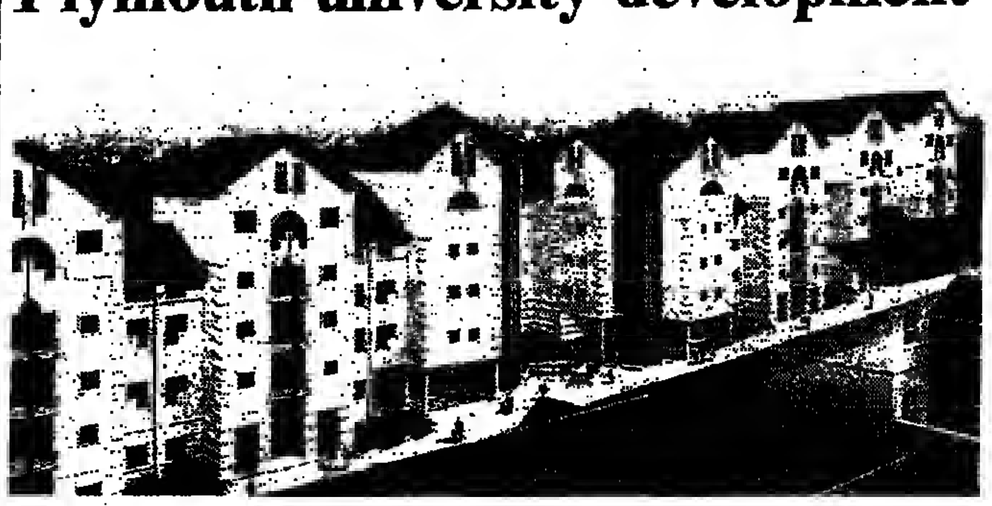
Road development

GARDINER & THEOBALD has been appointed as cost control consultants to Midland Expressway on the Birmingham Northern Relief Road – a new 46km dual carriageway.

Mixed batch

JT DESIGN BUILD has clinched three new contracts worth in excess of £4m. The projects include a training facility for ICI, a nursing home for Ashbourne Homes and a contract to redevelop a substantial part of Bush House, Bristol

Plymouth university development



The University of Plymouth has awarded a £10.4m contract to AMEC BUILDING for new student accommodation and lecture theatre complex (shown above in an architect's impression). The project, which will provide the university with accommodation for an extra 430 students, is due for completion next year.

As well as student accommodation, there are two-50 seater seminar rooms, a 250-seat lecture theatre, refectory and an underground car park.

The architects for the largely six-storey project in Gibbon Street, Plymouth, are Eaton Manning Wilson and Associates.

In addition to this development, the university has spent over £400,000 extensively refurbishing a terrace of late Victorian houses, also in Gibbon Street, opposite the new complex. These are providing 48 additional student residential places.

Dr Michael Gillett, the university's deputy vice-chancellor (Resources), said: "Our upgrading of these houses, plus our recent refurbishment of the Pitts Memorial Hall as a 180-seat lecture hall, means the university will have spent a further half-million pounds on improvements to this area of Plymouth.

"This is in addition to the £10.4 million cost of building what we believe will be an attractive asset to the city."

Improved seating for soccer fans

JOHN MOWLEM CONSTRUCTION has added to its tally of stand construction work with projects for Tottenham Hotspur and Watford Football Club together worth £5m.

This follows Mowlem's similar work with the north stand at Twickenham for the Rugby Football Union, completed in 1990; Twickenham east stand, which is due for completion by the start of the next season; and stands for Notts County Football Club and the Epsom racecourse grandstand.

The contract for Watford Football Club valued at £3m, is to design and construct a 9,500 seater stand at the Vicarage Road end of the ground and an extension to the lower terrace of the Rous stand. The new stand will have a structural steel frame with a "goal post truss" supporting the roof and extending the full 85m of the stand. Terrace units will be pre-cast concrete. The extension to the Rous stand will also be precast concrete and facilities will include an executive club lounge. Work has started for completion in 16 weeks.

The second contract, worth £2m, has been awarded by Tottenham Hotspur for the redevelopment of the north stand at White Hart Lane. The contract comprises the removal of the roof and the erection of a cantilevered roof comprising 400 tons of structural steelwork. A key element of this will be the main roof truss. This will span the entire length of the stand, which will be fabricated at ground level and winched into position.

At the same time, the lower terrace will be reprofiled to provide seats for 2,500 spectators.

Work has started for completion prior to the start of the new season in August.

£10m orders awarded to Hall & Tawse

HALL & TAWSE, the construction division of Raine, has won contracts in the education sector worth over £10m.

A three and a half storey business school is to be built at a cost of £3.2m for the University of Derby, including two new lecture theatres with seating for 400 students.

One of the theatres will feature a mock courtroom to help students on law degree courses familiarise themselves with judiciary surroundings. (This contract follows the construction of a new £3m science and technology building at the university last September.)

Hall & Tawse has also commenced work on a £2.2m contract to build a music wing at the University of Nottingham's Art Centre.

The 57-week building programme will see the development of a recital hall, 14 practice rooms, a music library, and a separate seminar room.

In Worcestershire, a £1.8m order has been won to design and build a library and resource centre at Bromsgrove School.

It will have a capacity for 30,000 books, and provide 100 study spaces.

PEOPLE

Reischl occupies his UK listening post

The significance of German supermarket chain Rewe's surprise acquisition of a minority share in Budgens was underlined at the end of last week with the appearance of its chief executive, Hans Reischl, as a non-executive on the board of the small UK retailing chain.

"We are very fortunate that he decided not to delegate the job, but to do it himself," says Budgens director Christian Williams.

Before arriving at Budgens, chief executive John von Spreckelsen, together with Williams, had turned around a Bremen supermarket chain, KAFU-Wasmund, which was subsequently sold to Rewe. Williams says that the two had, however, not met Reischl at that stage. "He was the big boss; he delegated jobs like that."

Rewe's 26 per cent stake in Budgens, which has just 100 stores, has attracted considerable interest in the food industry.

Why does Reischl accord it such importance? Williams points out that it is the first foreign investment made by the private group, which operates 8,000 stores and has a 15 per cent market share of its domestic market.

"I suppose this is one way of establishing a substantial listening post and getting an idea of what the UK grocery market is all about. After all, the company would find it difficult to buy a 26 per cent stake in Sainsbury's or Marks & Spencer," comments Williams.

Williams believes that Budgens is more advanced than its continental European competitors in certain areas – including its fully automated warehousing and its delivery trucks, which store food at three different temperatures.

Reischl, who speaks good English, should have no language difficulties at Budgens. Von Spreckelsen is a German national, and Williams, whose mother tongue is Danish, also speaks German. Both also have experience of the German market.

Stephen Bellamy, a director of New Zealand investment company BIL Securities, which sold its Budgens stake to Rewe, and who has sat on the Budgens board in a non-executive capacity since the end of 1991, has so far not stepped down.

Holdsworth heads north

Sir Trevor Holdsworth (above) is the new chairman of Lancashire footwear manufacturer Lambert Howarth, succeeding Roger Rowland.

Robert Garfit, group managing director, says the distinguished industrialist is a Yorkshireman with "a strong understanding of the northern approach to business" who likes the "immediacy of a small entrepreneurial company".

Introduced to Sir Trevor by merchant bank Singer & Friedlander, the company is pushing ahead on expansion plans.

Innovation brings advance at Scottish Enterprise

Scottish Enterprise, the development body for Scotland outside the Highlands, has appointed John Lord to the post of director of strategy. Lord has, until now, been chief executive of Enterprise Ayrshire, one of 13 local enterprise companies (LECs) for which SE is the parent. LECs are the Scottish equivalent of the English training and enterprise councils (TECs).

Enterprise Ayrshire is regarded as one of the most imaginative LECs. Its training programmes have been innovative, despite the straitjacket imposed by the Training Agency.

Lord, an Englishman aged 41, is the only LEC chief executive to have come from the Training Agency; most of his counterparts were with SE's predecessor, the Scottish Development Agency.

Crawford Beveridge, chief executive of SE, says that Lord's "perception of what needs to be done and how to go about it struck a chord with the chairman [Professor Donald MacKay] and me".

SE has also appointed Russel Griggs to a new post, director of business development. Griggs, 44, had headed company development at SE. His new division will stimulate the creation of new companies, after an SE inquiry showed slow new company formation in Scotland.

Procession of chief executives continues at Prestwick

Wayne Osman has resigned as chief executive of Prestwick Holdings, the quoted Scottish printed circuit board maker. John Gilhooly, a senior figure in the electronics industry and deputy chairman of Albacom, becomes acting chief executive and deputy chairman.

Osman, who has run Prestwick since 1990, joins the long list of former chief executives of Prestwick, a company which has only fleetingly seen a premium on its shares since it was listed in 1985. Osman, a former professional cricketer with long experience of the electronics industry, was once seen as the man to end a succession of false dawns and poor performances.

Although turnover has increased recently profits have been poor.

Public posts

■ Martin Hall of the London Stock Exchange has been elected chairman of the working committee of the FEDERATION OF EUROPEAN STOCK EXCHANGES.

■ David Green will succeed Garry Turvey as director general of the FREIGHT TRANSPORT ASSOCIATION later this year.

■ Bert Morris of National Westminster Bank has been elected chairman of the council of the ASSOCIATION FOR PAYMENT CLEARING SERVICES.

■ Dick Goddard, md of Telephone Cables, has becomes chair of London East Training and Enterprise Council.

■ Gordon Johnston, md of Property Services Agency International, has been appointed executive director of the UNITED KINGDOM MAJOR PORTS GROUP.

■ Christopher Martin, chief executive of Tipton and Coseley Building Society (pictured above), becomes chairman of the MIDLANDS AND WEST ASSOCIATION OF BUILDING SOCIETIES.

■ Richard Pears has resigned as chief executive of the NATIONAL DAIRY COUNCIL.

■ Richard Guy, a partner of William Eve and Sons, has been appointed president of the RATING SURVEYORS' ASSOCIATION.

■ John Telford Beasley, until recently deputy chief executive of London Regional Transport, has been named president of the INSTITUTE of TRANSPORT ADMINISTRATION.

■ Peter Long, chief executive of Bowater's industrial packaging division, has been appointed chairman of the BRITISH FIBREBOARD PACKAGING ASSOCIATION.

■ Gerald Kingdon, chairman of Building Supplies (South Molton), has been elected president of the BRITISH HARDWARE FEDERATION.

■ Arthur Stone, chief executive of the Leeds and Holbeck Building Society, has been appointed chairman of the NORTHERN ASSOCIATION OF BUILDING SOCIETIES.

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TIMES MONDAY JUNE ...

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Procession of chief executive continues at Prestwick

progress.

Opera/**Max Loppert**

Inquest of Love

Jonathan Harvey's *Inquest of Love*, latest premiere in the English National Opera annual series, is an arresting piece of modern music-drama. In its conjoining of old and new, tradition and innovation, it proves to be that rare achievement in the modern opera house, a new opera realised with equal amounts of artistic idealism and practicality.

In its two acts a "whole world" is created in which one spends an unflaggingly concentrated two-and-a-half hours. Rarest achievement of all, it is a new opera whose whole *raison d'être*, and command of music-theatre, is reposed in its music. This is possible only because Harvey – librettist (in collaboration with David Rudkin) as well as composer – is an artist of visionary temperament disciplined by a craftsman's precise skills.

In this case, and providing the climax to a string of concert and theatre works of similar substance, Harvey has convoked the full resources of a modern opera house to revive there a peculiarly English strain of mysticism. Most of the action unfolds in the afterlife. A spiritual pilgrimage underpins tha opera's narrative – passing from violent death (the shooting of a young couple at their moment of wedding vows) through intermediary stages of learning and healing to the final ecstatic carollings of "O Love-filled Light! O healing Love!".

All of this might suggest that Vaughan Williams's Bunyan opera, *Pilgrim's Progress*, has found its successor. Or, since at the start the central couple, Ann and John, are about to embark on their wedding ceremony (and a Druidical ancient comes to warn of impending disaster), that Tippett's *Midsummer Marriage* has been particularly well-remembered by Harvey. (In advance libretto perusal the Tippett-ish Josh, one of three spirit messengers, raises fears of whimsy that the full experience comprehensively allays.)

Other influences are no less easily cited: Elgar's *Dream of Gerontius*, for its tale of a soul in passage (last Saturday Andrew Clements quoted in these columns Harvey's acknowledgement of just such an influence); *Parsifal*, for the scenes of liturgical ceremony musically structured on the awesome sound of tolling bells; Stockhausen's apic conceptions, for their awakening through electronic-music apparatus of (in Harvey's own words) "a new reality, a different world"; Britten's Church Parables; medieval church drama; Anglican chant.

And much else. This being so, it is remarkable how completely *itself* the new opera feels to be. Its three functional levels are musically interlocked – by the electronic element (breath-sounds, church-choirs, bells), keeping in contact with the spiritual universe beyond the narrative foreground; by infusions of a consciously archaic liturgical idiom (modal chanting and exquisite hymnic concords for the "otherworld" characters); and by jagged vocal and orchestral characterisation for the three central figures – John, Ann, the rejected, vengeful sister Elspeth – to develop on their journey.

The sense that Harvey's opera is not just a unity of all its parts but that all those parts are expertly co-ordinated in the libretto informs the whole experience. It is an experience welling out of the balance between light and dark, slow and fast movement, between the disintegrative style of the first act (with its *Rashomon*-like re-viewings of the murder-act from different angles) and the regenerative forms and impulses of the second.

No criticism? Well, word-singing is unclear much of time – but that, like the many passing mystifications of the staging, should perhaps be laid at the door of the producer, David Pountney. With his designer, Nigel Lowery, he treats the libretto with characteristic freedom. As always with Pountney the staging is richly resourceful, full of energy, irony, and an individual stamp of imagery (much of the latter provided by the dance troupe Second Stride). The emotional and psychological charge is strong. Nevertheless, advance reading of the libretto (published by Faber) may waken hunger for the "old-fashioned" numinous atmosphere that Harvey imagined and Pountney then elected to excise.

Linda McLeod

What is surely beyond criticism is the impassioned commitment of the musical forces under Mark Elder, who closes his period of ENO office with a tremendous feat of sustained sympathy with a composer's vision. The principals, alert with dramatic involvement and musical confidence, must all be named: Peter Coleman-Wright (John), Linda McLeod (Ann), Helen Field (a thrilling Elspeth), Richard Van Allan (the Abbot), and Ethna Nan Christie, Ethna Robinson and Barry Banks as the three spirit-messengers.

In description *Inquest of Love* may sound to the general opera-goer off-puttingly like a neo-Buddhist or New Age tract gone operatic; in the theatre it proves anything but simple-minded, or Instant-Ecstasy-inducing in the manner of Pärt or Gorecki. Of the ENO new-opera commissions this is, I believe, the outstanding achievement so far, the one built to last.

Sponsored by KPMG Management Consulting; in repertory at the London Coliseum until June 22

Holland Festival/**Andrew Clements**

Sellars' Pelleas

No doubt of the main novelty at this year's Holland Festival, which runs throughout June. For good or ill, every opera production that Peter Sellars undertakes is a news event. The latest to be subjected to scrutiny is an intriguing choice – *Pelléas et Mélisande*, which Sellars has directed for Netherlands Opera; Simon Rattle is the conductor.

The programme book for the new staging is promisingly larded with literary references – extracts from Baudelaire, Barthes, Bachmann and Pinter, as well as the writings of Debussy and Maeterlinck. But all that proves to be peripheral, for the result is yet another addition to Sellars' anthology of American fables. The slice of late 20th-century life refracted through this *Pelléas* is taken from the US West Coast – Malibu perhaps, or Big Sur; Goland and his benighted family belong to the super-rich, living on the beach in architect-designed luxury, insulated from the real world by domestics and security guards.

George Tsypin's monolithic set peels away the walls of the split-level dream home like a doll's house. Arkel is seen in an upper room, confined to a wheelchair and waited upon hand and foot by his nurses; on the floor below lies the inert form of Pelléas's father, one of opera's great unseen characters finally making an appearance, kept alive on a drip and visited from time to time by the ever solicitous Geneviève. The lighting is flat and fluorescent and scene changes are minimal, requiring Sellars to invent business to cover Debussy's orchestral interludes; that generally involves a trio of vagrants (the beggars from the third act) who seem to live around the estate.

From the opening moments it is clear this is not a happy home; the curtain rises during the prelude on Golaud with a revolver to his mouth apparently contemplating suicide; no explanation is offered but his discovery of Mélisande, it's suggested, saves him from himself, and perhaps explains the unreasoning jealousy that he ferments through the opera. Otherwise, though, the dramatic treatment, like the visual one, is purely cosmetic, short on insights and psychological elucidation.

The opera is sung in French with Dutch surtitles; the text is unimpaired and Sellars appears to be presuming yet again on the language barrier providing him with the necessary suspension of disbelief to get away with his reworkings. Yet such precise pictorial realism in an opera already heavily charged with symbolism turns almost every utterance, every action, into tendentious metaphor; Maeterlinck's characters never say what they mean anyway, and adding yet another layer of inference just compounds the problems. If Sellars genuinely set out to provide hard-edges to this elusive story he has only succeeded in blurring them further. What redeems the show, however, is the musical performance. Where in almost every other Sellars production I've seen there has been a feeling that the musical parameters had been determined as much by the director as by the conductor, the partnership with Rattle seems much more an equal one. The main characters are all taken by British-based singers with whom Rattle has worked regularly and from whom he obtains beautifully moulded, if not always linguistically fluent performances.

Willard White's smouldering, physically aggressive Golaud is the focus, powerful and frightening in everything he does. The Pelléas is Philip Langridge, employing a very wide range of vocal colour which incorporates an almost toneless *parlando* at one extreme, the Mélisande Elise Ross, who has moments of instability but many sweetly turned phrases as well, even if they do not make the youngest-looking pair of lovers one could imagine. There is the familiar forthright Arkel from Robert Lloyd, a strong, compassionate Geneviève from Felicity Palmer; Gaële Le Roi is the Yniold, singing sensibly and without affecting childish squeaks.

Binding the cast together, though, is Rattle's command of the score; he obtains playing of wonderful depth and security from the Netherlands Philharmonic. Every scene is paced with extreme care, each is given a perceptible backbone, a sense of inevitable unfolding. Without ever resorting to rhapsodic excesses Rattle communicates a sense of numinous wonder in the work; he catches exactly the ambiguity of an opera which can underpin a tale of horrifying human cruelty with such ravishing music.

Muziektheater, Amsterdam; further performances until June 23

Ballet/**Clement Crisp**

La Ronde

The new Royal Ballet triple bill is an ungainly affair, over-long at three hours and twenty minutes, and unbalanced in its components. The return of *Checkmate* is important, and welcome as a tribute to mark the 95th birthday of Dame Ninette de Valois. It reminds us that not only do we owe her everything as founder of our national ballet, but that her choreographies – the company should have brought back *Rake's Progress*, too, for this celebration – are enduringly sure in the theatre. The restoration of *Prodigal Son* to the repertory is valuable in that it offers Irek Mukhamedov a role which he dances with marvellous intensity. The revival was rather less happy, though, as an account of Balanchine's text: it lacked that Art Deco clarity of outline which must make the piece seem rite quite as much as drama.

Reasons to justify the arrival of Glen Tetley's *La Ronde* at Covent Garden are hard to find. The piece was made for the National Ballet of Canada six years ago. It is set to Erich Korngold's *Sinfonietta*, a boyhood piece – he was fifteen when he wrote it – which at best sounds like fake Richard Strauss, and at worst (and most often so) like Korngold. To its over-blown and blatant measures (a boy who could write stuff like this was foredoomed to Hollywood), we see the sequence of linked erotic encounters – A makes love to B who makes love to C – which bring us, after ten industriously mimed intimacies, back to the first member of the daisy-chain. Only ten dancers, but as many orgasms: it is a ballet of under-population but over-copulation.

La Ronde lasts – was that all? – fifty minutes. Fifty very similar minutes, since unless the participants were to hang from the chandelier, there is little possible choreographic variety. Tetley's dances are sinuous but superficial, and the characters are cyphers. There is a great deal of scenery by John Macfarlane which whistles in and out and looks costly as a substitute for choreographic vitality, and Alt Wien costuming which soon lands on the ground as the wearers enjoy their few minutes of fun. Even after the last couple has, as it were, been screwed down, there is a tedious reprise of relationships as the remaining glutinous pages of the score have to be used up. The cast work hard. Fiona Chadwick, playing an actress, suggests that there might be feelings under the cardboard of her character; and I thought an Italian newcomer, Maria Galeazzi, moved with a beautifully open style as a young wife. *La Ronde* is a bore, and an odd repertory choice when one considers the treasures by Fokine, Massine, Ashton, MacMillan, which lie unregarded in the company's store.

Yet if these are to be restored to the stage, as they should be, they must be respected. I do not feel that this is true of *Prodigal Son* which, apart from Mukhamedov's bold incarnation of the young man, was unfocussed. The Rouault designs were miserbly lit – no luminosity to their colours – and the general scenes had a too-improvisatory air. Mukhamedov dug deep into the choreography and brought out the role vivid and true. The first scene, where the youth sets out on his journey, blazed with physical and emotional energy. The orgy was dominated by Mukhamedov's ability to show innocence destroyed: he needs, though, an icier Siren that Genesia Rosato proposed.(Balanchine said she should be "cool, strict, calculating"). The Prodigal's return home would benefit from slight under-playing, but was nonetheless heart-rending.

The restoration of *Checkmate* found its colours strong – the McKnight Kauffer set is still magnificent – and its score, under Barry Wordsworth, more dramatically taut than it has sounded since the golden days of Constant Lambert. This is a good revival. Adam Cooper is a welcome new Red Knight, the role securely on the music; Darcey Bussell's Black Queen is not as menacing as the role demands; David Bintley is a fine Red King. We owe Dame Ninette our gratitude for this ballet – and for everything else.

The triple bill is repeated on June 9 and 10.

Architecture/**Colin Amery**

Collection of dreams

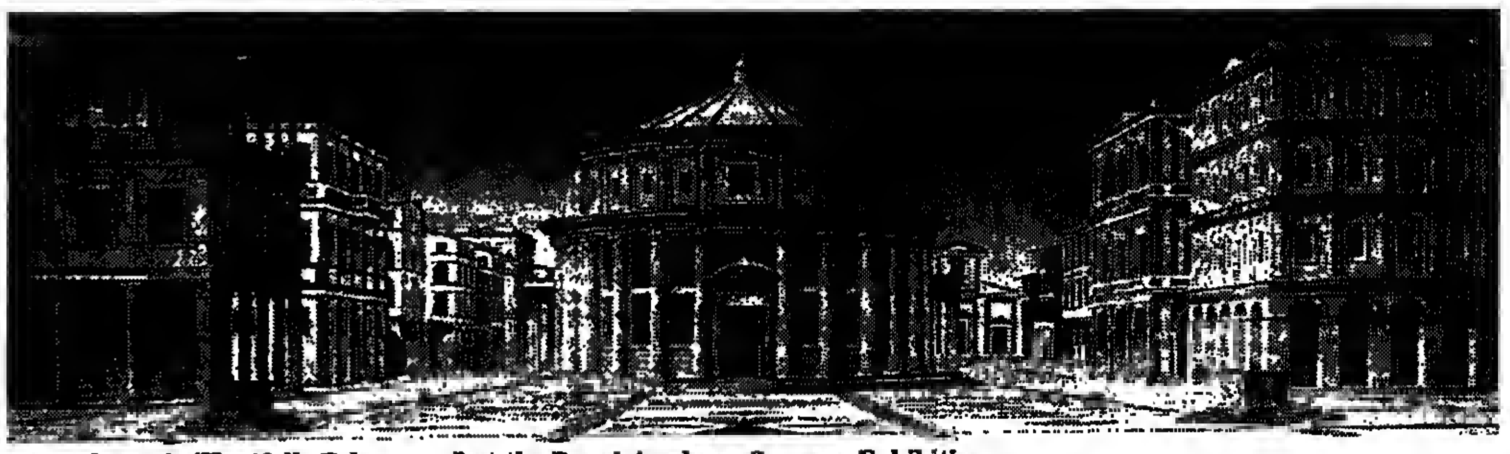
Critics come in for quite a bashing in this year's Royal Academy Summer Exhibition illustrated catalogue. Tom Phillips has written a brave, fighting introduction in which he says: "More sophisticated and more fearless than the critics (who annually wilt before abundance to become a feeble chorus of ritual complaint), the public enjoys the challenge of a show in which visitors can make their own selection and back their judgments against those of the pundits who, historically, have seldom been right."

I rather agree with him – about the public, and I also agree with him when he says almost every other venue of contemporary art has become a fashion house, and, "an austere temple of orthodoxy".

Exactly the same things can be said when it comes to architecture. There is nowhere else in London where Quinlan Terry can rub shoulders with Richard Rogers, or where a visitor can have a good laugh at Peter Cook's old jokes while enjoying the silvered elegance of Norman Foster's work. There is nowhere else in the world which would give so much room to so much pedestrian work – simply because it is ploddingly made by elderly academicians all of whom have a right to be shown. But there is no doubt the RA Summer Show (apart from its natural bias towards its own members) is dogma-free. Which is more than can be said of most architectural schools, most architectural critics, the Arts Council and the Architecture Foundation.

The architecture room in Gallery Six is crowded and clearly designed to make critics wilt at its richness. The most striking exhibit is a well selected work of the artist Ben Johnson. He is not an architect but an artist who is almost obsessed, in tha best sense, by architecture ancient and modern. His large painting has a long title – "Footfalls echo in the memory down the passage we did not take towards the door we never opened." It is a reconstruction of Piero della Francesca'a "Ideal City" an exercise in architectural perspective and town planning. It is not a copy but an attempt to understand the geometric sources of the painting which hangs in the palace at Urbino. We know that Piero was a mathematician and scientist and that he achieved extraordinary architectural effects in the fifteenth century without the aid of computers. Ben Johnson has produced his pictorial analysis by working with a group known as the Alberti Group which made a three dimensional model of the Piero painting and used computers to see how the remarkable perspectives were achieved. It is, apart from being pleasing to look at, a very appropriate picture to hang above the mixed efforts of architects in the room as an inspiration and lesson.

The recent past is also very present at the Academy. Two words crop up with depressing regularity – "the late". The loss of the artists Sir Sydney Nolan, Peter Greenbam and Dame Elizabeth Frink is distressing indeed and it is hard to believe that the energy of architect Sir James Stirling is no longer in this world. There is a handsome tribute to him made more poignant by the life-like bronze bust of him by Celia Scott. His drawings are a very particular taste – strangely



Ben Johnson's "Footfalls Echo . . . " at the Royal Academy Summer Exhibition

angled axonometrics that make his buildings look more like angular sculpture than places of habitation or work. I was prompted to think of Stirling as I looked at the drawing of the proposed extension to the Academy of Fine Arts by John Partridge of *HKPA* Architects. How tame it is when you think of the memorable wing that Stirling added to the Staatsgalerie in Stuttgart. Architectural originality is rare – and Stirling certainly didn't pull it off every time. His scheme for the City of London's Mappin and Webb site is exhibited again here and there can be no doubt it is looking dated before it is built.

When it comes to dated buildings, how depressing it is to contemplate the British Library, which one day is planned to open at St. Pancras. It is not only dated looking but already e complete period piece. The architect, Colin St. John Wilson, exhibits – in all its blushing horror – a silkscreen print of the scarlet North elevation of the building and a model with a scarlet person in it of the proposed King's Library. The removal of the King's Library from the British Museum is an act of vandalism that is hard to forgive. To house it in this six storey glass bookcase, the design of which has clearly been based upon the rare books library at Yale University, is sacrilege. Everyone dreads the closure of the British Museum Reading Room – it is as bad as knocking down an irreplaceable cathedral – Mr Wilson's new library merely adds insult to the injury.

It is good to see Sir Geoffrey Jellicoe's humane garden designs in the architecture room. His detailed drawing repays study. I was intrigued by Norman Foster's proposals for the Reichstag in Berlin – he puts a beautiful umbrella over the rebuilt ruin – a simple and moving idea. His silver models of other German projects are handsome and the one of the proposed City Hall for Marseilles should not be missed. It lurks in gallery one.

When you have had enough of the motley collection of architects' dreams one thing the RA is always good for is that it recognises that the tradition of landscape painting continues to thrive in England. Michael Andrews's "Oare, The Vale of Pewsey" and the glorious painting by David inshaw, "Chestnut Tree, Honey Street" are great paintings by any standards and calm reminders of things more perpetual than shifting architectural values and the confusion of the critical debate.

INTERNATIONAL ARTS GUIDE

BERLIN

OPERA/DANCE

Deutsche Oper Tomorrow: Don Giovanni. Wed: Aida with Julia Varady. Thurs: Fidelio. Fri: Die Zauberflöte. Sat: Tosca with Galina Kalinina and Richard Margison. Sun: Tristan und Isolde with Deborah Polaski and René Kollo. June 16, 19: Alfredo Kraus and Lucia Aliberti sing opera arias and duets (341 0249)

Staatsoper unter den Linden Tonight: Roman Trekel song recital. Thurs: Swan Lake. Fri: Entführung. Sat: choreographies by Balanchine and Alonso. Sun: Lohengrin with Poul Elming, Siegmund Nimsgern, Anna Tomowa-Sintow and Anja Silja (200 4762)

CONCERTS

Schauspielhaus Tonight, tomorrow: Erich Leinsdorf conducts Berlin Staatskapelle in works by Wagner, Debussy, Liszt and Brahms (200 4762). Wed, Thurs, Fri, Sat: Lothar Zagrosek conducts Berlin Symphony Orchestra in music by York Holler, Walton and Bartok, with viola soloist Tabea Zimmermann (2090 2156)

Philharmonie Tonight, tomorrow: Valery Gergiev conducts Berlin Philharmonic Orchestra in Prokofiev'a Second Violin Concerto (Leon Spierer) and Shostakovich's Eighth Symphony. Wed: Yehudi Menuhin conducts Berlin Radio Orchestra and Chorus in Brahms' German Requiem, with Julie Kaufmann and Simon Estes. Sat: Evgeny Kissin piano recital. Sun and next Mon: Günter Wand conducts Berlin Radio Symphony Orchestra in Mozart and Schubert, with piano soloist Maria Tipo. June 15, 16, 17: Seiji Ozawa conducts BPO (2548 8232)

THEATRE

Hans Neuenfels directs Schiller Theater's new production of Shakespeare's A Midsummer Night's Dream, first night Sat. The company is also staging a new production of Stephen Poliakoff's Strawberry Fields, first night June 19 at Werkstatt (312 6505). The Vienna Festival production of Euripides' Alcestis, directed by Frank Castorf, can be seen at **Volksbühne am Rosa Luxemburg Platz**, where repertory also includes Anthony Burgess's stage adaptation of Clockwork Orange (282 8978). A new production of Kleist's Amphitryon, directed by Jürgen Gosch, opens at **Deutsches Theater** on Fri (2844 1225). The new Marlene Dietrich musical runs daily except Mon at Theater am Kurfürstendamm (300 6000). Porgy and Bess runs at **Theater des Westens** till June 27 (3190 3193)

● Tickets and information for theatre, revues, concerts and nightclub shows available from City Center Theater und Konzertkasse, Kurfurstendamm 16 (tel 882 6563 fax 882 6567) and **Theaterkasse im Europa-Center** (tel 261 7051 fax 261 9286)

NEW YORK

THEATRE

● Kiss of the Spider Woman: a Kander and Ebb musical directed by Harold Prince (Broadhurst, 235 West 44th St, 239 6200)

● Later Life: the new A.R.Gurney play about a man and woman who meet after a 30-year separation (Playwrights Horizons, 416 West 42nd St, 279 4200)

● Angels in America: first part of Tony Kushner's epic drama about gay life, AIDS, Reagan-era politics and Mormonism (Walter Kerr, 219 West 48th St, 239 6200)

● Tommy: stunning stage adaptation of The Who'a 1969 rock opera (St James, 246 West 44th St, 239 6200)

MUSIC/DANCE

Metropolitan Opera American Ballet Theatre winds up its season with an Agnes de Mille tribute tonight; a mixed bill (Ashton, Holder, Lander) tomorrow, Wed and Thurs; and another mixed bill (Tudor, Balanchine, de Mille) on Fri and Sat (362 6000)

State Theater New York City Ballet's Balanchine Celebration runs daily except Mon till June 27. This week's repertory includes includes the 1972 Stravinsky Festival opening programme and Coppelia (870 5570)

Avery Fisher Hall Tomorrow: James DePriest conducts New York Philharmonic in works by Barber, Herbert and Berlioz, with cello soloist Lorne Munroe. Thurs, Fri afternoon, Sat: Leonard Slatkin conducts works by Mahler and William Schuman (875 5030)

Weill Recital Hall Wed till Sun: John McGlinn conducts Cole Porter'a musical comedy Gay Divorce, first New York revival with original orchestrations since 1932 (247 7800)

PARIS

DANCE

● Britain's Royal Ballet comes to **Théâtre des Champs-Elysees** next week for a two-week season as part of the Nouveau Festival International de Danse. Between June 15 and 27, the company will present five programmes, including Mayerling, Swan Lake, The Judas Tree, A Month in the Country and Gloria (4952 5050)

● Ballet de l'Opéra de Paris has two versions of Giselle at Palais Garnier. The romantic version is staged by Patrice Bart and Eugene Polyakov, based on choreography by Jean Coralli and Jules Perrot for the premiere 150 years ago. Running in tandem is Mats Ek's 20th century version, conducted by Richard Bonynge. Daily except next Tues till June 17 (4742 5371)

● Etoiles de l'Opéra de Paris present a gala for AIDS on Sun at Opera Bastille, with choreographies by Bejart Robbins, Tharp, Nureyev, Kylian and others (4742 5371)

● Pina Bausch brings Tanztheater Wuppertal to **Theatre de la Ville** from June 15 to 27 (4274 2277)

● Frankfurt Ballet is in residence at the **Châtelet** from June 22 to 26 with choreographies by William Forsythe (4028 2840)

OPERA

Opera Bastille Tonight, Wed, Fri, Sat afternoon (Amphitheatre): Rossini's Il signor Bruschino. Next Mon: Myung-Whun Chung conducts first night of Jose Luis Gomez's new production of Carmen, with Beatrice Uria-Monzon (4473 1300)

Theatre de la Ville Tomorrow, Wed, Fri, Sat: Orfeo, new opera by Belgian composer Walter Hus, production by Needcompany of Brussels (4274 2277)

Châtelet Wed: John Eliot Gardiner conducts first night of Jean-Louis Thamin's new production of Le nozze di Figaro, designed by Rudy Sabounghi and Patrick Lebreton, with English Baroque Soloists, Monteverdi Choir and a cast led by Bryn Terfel, Rodney Gilfry, Hillevi Martinpelto and Alison Hagley. Repeated June 11, 13, 15, 17 (4028 2840)

Opera Comique June 15: first of 12 performances of Marc-Antoine Charpentier's Médée conducted by William Christia (4286 8883)

CONCERTS **Theatre des Champs-Elysees** Tonight: Labeque Sisters. Tomorrow: Catherine Collard piano recital. Sun morning: Pierre Amoyal, Nobuko Imai and Boris Pergamenshikov play piano trios by Beethoven and Schubert (4952 5050) **Salle Pleyel** Tomorrow and Fri: Semyon Bychkov conducts Orchestre de Paris in two Brahms programmes, with piano soloist Andre Watts. Sun: Charles Dutoit conducts Orchestre National de France and Chorus in Berlioz'a La Damnation de Faust, with Francoise Pollet, Thomas Moser and Gilles Cachemaille (4561 0630) **Eglise Saint-Eustache** Thurs: John Poola conducts Groupe Vocal de France in sacred music by Mendelssohn, Rakhmaninov and Poulenc (4027 0880)

VERSAILLES

The baroque music centre at tha **Chapelle Royale** has organised a short festival of music by Andre Campra from Thurs till Sun. Highlights include the Requiem conducted by Gustav Leonhardt on Fri, a concert by Choir of New College Oxford on Sat afternoon and a concert performance of Campra's opera-ballet L'Europe Galante on Sun, conducted by Marc Minkowski (3902 3000)

SAINT-DENIS

The annual festival in this Paris suburb includes a series of concerts in the **Basilique**. On Fri, Alberto Zedda conducts choral works by Rossini and Pergolesi. June 15: Jean-Claude Malgoire conducts Campra's Vespers and Ta Deum. June 24, 25: Seiji Ozawa conducts Mahler's Third Symphony. June 30: Barbara Hendricks sings Mozart (4243 7772)

JAZZ/CABARET

Lionel Hampton Jazz Club American soul singer Tony Warren and his group are in residence till Sat. June 14-26: Joe Louis Walker, blues singer and guitarist. Music from 22.30 (Hotel Meridien Paris Etoile, 81 Boulevard Gouvion St Cyr, tel 4068 3042)

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Samuel Brittan

Clan hatreds divide Left from Right

The Tory party's break-up into warring factions is reminiscent of the Labour party of years gone by – not of the struggle against Militant, but of the much older battles of the Bevanites against the party's mainstream. These battles were accompanied by anti-heresy drives, witch-hunting and slogans such as a "party within a party".

The Conservative struggles are reminiscent of these battles in another way too: there was little intrinsic link between the policies which were supposed to unite the members of various factions. Personalities and clan loyalties were more important.

There is a virtuoso description by Matthew Parris of the links – or lack of links – between the various kinds of latter-day Thatcherite in last week's Spectator. According to Parris, the former prime minister is emerging as a cult leader. "Just as a messiah starts his life as a real man with a *real* plan who does things, measurable things, in the real world, and ends his life as the idealisation of a man, an abstraction almost, whose claimed works are unnumbered and ill-defined and whose function is to inspire, so does this woman now move from the part of her life when she did things to the part of her life where she just is: a visible beacon."

But it is very unclear to what practical path this beacon points. The important element is betrayal – "that strange alloying of supremacy with martyrdom" – whether by her own cabinet or in the way the Europeans interpreted the Single Market Act.

The days when Thatcherites had to defend unpopular actions like tax increases to bring down the budget deficit, leaving ailing firms to find their own salvation, pricing people into jobs, and so on, are long since past.

Present-day Thatcherism overlaps another faction: anti-Majorism for its own sake. Of course the latter contains a large element of snobbery; but it is more complex than that. At one time the Tory grandees were just as scathing about Margaret Thatcher. I can always get an easy laugh on the Continent by citing Harold Macmillan's view that her government had "too many Estonians and too few Etonians".

Perhaps the simple truth is that to be anti-Major is simply fashionable among some of the politically minded young as it once was to be anti-Selwyn Lloyd, or anti-Harold Wilson – whose cosy-glow electric fires were the victims of such superior mockery by Private Eye.

Not that the so-called Tory Left, which surrounds the present prime minister, is much pleasanter. Some of its more ruthless tactics – such as putting the squeeze on members via their constituency parties, or uttering dire threats to

Both wings suffer from gangster-like obsession with the question: 'Is he or she one of us?'

those who are cool on Maastricht – recall the last time this wing of the Tories was close to the throne, in the days of Ted Heath in 1970-74. Both wings suffer from gangster-like obsession with the question: "Is he or she one of us?"

A weird aspect of the present polarisation is the assumption by nearly all political commentators that interest in European monetary union or even in the exchange rate mechanism is a prerogative of the Tory Left and that no one on the Right would touch them with a barge pole.

Alas I must spoil the game with some economic distinctions: even the concept of an Economic Right as a simplification. At one time the Right consisted of protectionists, including Alan Clark when he was not writing his diary. But even the more market-oriented Economic Right has been split between those who insist on a framework of fiscal as well as monetary restraint, and the mislabelled supply-siders who want to cut taxes in virtually all circumstances. "Old time religion" and "Snake oil merchants" are the terms of endearment that fly around. This split has been especially evident in the US, but has its echoes in Britain too. To ask which of these attitudes is more Right or more Left, is to put more strain on these terms than they can bear.

The more ambitious goals of European union indeed appeal more to the Tory Left than to the Right. But the idea of some kind of exchange rate link, as a deterrent to inflationary policies, as well as an aid to trade, has nothing left-wing about it. Indeed in the closing years of the Bretton Woods system, the desire to leap to exchange rate freedom was a radical one, strongly opposed by financial conservatives. In the 1980s, the ERM was quite consciously embraced by many sound-money supporters as a way of imposing monetary constraints, which would appeal to a broader constituency than domestic monetarism. Left-of-centre economists who criticise the "straitjacket" of the ERM and the Maastricht treaty are quite right from their own point of view.

There was a time when the Tory Economic Right took the greatest delight in quoting James Callaghan (scripted by Peter Jay, who was in turn paraphrasing Milton Friedman), to the effect that governments could not spend their way to prosperity. Now an alliance which I have called the Black-Red Coalition, ranging from journalists such as William Rees-Mogg to Anatole Kaletsky, has sprung up which believes than they can, so long as they use the monetary and not the fiscal route; and that they are stopped from doing so mainly by the lingering desire of some around John Major to rejoin the *ERM*.

Would that economic policy was so easy. Intellectual short cuts are required; but the Left-Right dichotomy is a hopeless method of finding one's way around these minefields.

The land of the rising surplus

Charles Leadbeater and **Michiyo Nakamoto** on the dilemma posed by Japan's trade imbalance

If Japanese officials had any hopes that they could avoid a confrontation *with the US over the two* countries' strained trade relations, last week's Organisation of Economic Co-operation and Development talks in Paris must have dispelled them.

At the OECD ministerial talks, the US subjected Japan to unrelenting criticism over its trade surplus. Mr Lloyd Bentsen, the US Treasury secretary, *said the surplus was a* drag on world growth and warned: "That must change." Mr Ron Brown, US commerce secretary, reiterated the US demand that trade agreements with Japan deliver measurable results in reducing the surplus.

This week, Mr Mickey Kantor, the US trade representative, is expected to outline proposals to halve the Japanese trade surplus to 1.5 per cent of gross domestic product, partly by demanding that Japan agree on targets to deliver shares of its domestic markets to foreign exporters.

US business is also delivering to Tokyo a stream of demands for market access. After US apple growers pressed their case in Tokyo last Thursday, it was the turn of semiconductor producers on Friday. They will be followed next week by construction companies.

It will not be easy for Japan to satisfy US requests: its capacity to pump up domestic demand to suck in imports has been significantly curtailed since the mid-1980s. Japanese officials are sceptical about how quickly the current account surplus, worth $117.6bn in 1992 and expected to reach $140bn this year, can be reduced. The surplus with the US is worth about $50bn. Mr Nobuyori Kodaira, director of the Americas division at the Ministry of International Trade and Industry, remarked: "The factors behind the US trade deficit cannot be expected to change overnight."

The scepticism reflects the mixed success of past attempts to reduce the surplus. The most concerted effort was during the late 1980s, after Japan's current account surplus rose to $87bn in 1987. Largely in response to foreign pressure, Japan cut interest rates to expand domestic demand and boost imports. At the same time, the US and Japanese governments set up the Structural Impediments Initiative to examine trade imbalances.

The policy was successful as far as economic growth and import demand were concerned. The Japanese economy grew by 4 per cent a year or more between 1987 and 1991, while the current account surplus fell to $35.8bn in 1990.

Japan's trade profile

	1985	1986	1987	1988	1989	1990	1991	1992
Current account surplus $bn	49.2	85.8	87.0	79.6	57.2	35.8	72.9	117.6
Current account surplus to GNP (%)	3.6	4.2	3.6	2.7	2.0	1.2	2.2	3.2
Imports to GNP (%)	8.7	5.7	5.3	5.6	6.7	7.3	6.0	5.5
Real economic growth rate (%)	5.2	2.6	4.3	6.2	4.8	4.8	4.1	1.8
Contribution of foreign demand to economic growth (%)	1.2	-1.0	-0.6	-1.2	-0.9	-0.2	1.4	0.8

Source: Fuji Economic Review

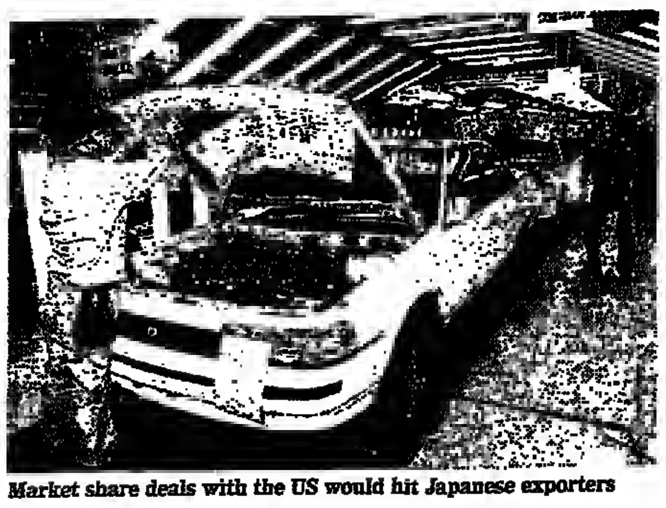
However, the boom also created a damaging side-effect. It prompted an unsustainable rise in land and stock prices amid the rampant speculation of the late 1980s.

As economic growth has slowed over the past two years – down to 1.3 per cent last year – demand for imports has fallen sharply. The terms of trade have also shifted since 1990. The fall in oil prices has reduced Japan's import bill, while the strength of the yen has inflated dollar-denominated export prices. The result has been a relentless rise in the current account surplus from just over 1 per cent of Japanese GDP in 1990 to 3.2 per cent last year.

As a senior US business executive in Tokyo puts it: "The measures of the late 1980s were a political success because they defused the tension. But economically they failed. The US is right back where we started."

That is only partly true. While the problem is familiar, the context for talks about reducing Japan's trade surplus is different from that of the mid-1980s.

The end of the cold war has shifted the basis for the relationship. The US alliance with Japan, built on the need to contain communism in Asia, anchored the relationship even when trade tensions threatened to drive them apart. Economics has emerged as the dominant issue, and the Clinton administration appears to want to take a more assertive approach than its predecessors.



Market share deals with the US would hit Japanese exporters

In addressing the problem of its surplus, Japanese politicians, bureaucrats and industrialists will face tougher choices than in the 1980s. During the past 10 months the government has announced plans to spend more than $200bn to steer the economy away from outright recession. It has succeeded, only to find itself confronting the equally pressing task of renegotiating its trade relationship with the US.

Macro-economic policy has been adjusted, partly to cut the surplus. Official interest rates are at an all-time low of 2.5 per cent, and since last August the government has announced special pump-priming measures worth Y24,000bn to revive the economy.

Change has also been forced upon it by the appreciation of the yen. A chorus of complaint from Tokyo has accompanied the yen's rise this year from about Y125 to the dollar to about Y107, an increase that has made Japanese exporters less competitive.

Senior Japanese government officials hoped the spending measures would satisfy the US. But Mr Bentsen describes them as a "useful first step". He wants the Japanese government to use *higher* public spending and tax cuts to stimulate domestic demand.

There is a limit to what macro-economic policy can achieve, however. In the late 1980s, growth of about 4 per cent a year was required to reduce Japan's trade surplus significantly. Even the most optimistic forecasters do not believe such growth is possible until late 1995.

The scale of stimulus required to promote such growth is opposed by the Bank of Japan and the finance ministry. They argue that the economy would start overheating again, while the public finances would be compromised. A senior Bank official explained: "We will set our policy according to our long-term domestic needs, not international calls for higher growth."

For the ruling Liberal Democratic party, neither of the main alternatives to macro-economic stimulus is appetising.

The first is to forge bilateral trade agreements with the US. Mr Kantor has identified seven sectors for talks: cars, car parts, semiconductors, computers, supercomputers, telecommunications and construction.

The political risk for the LDP is that market share agreements would alienate Japanese exporters already hit by the high yen. Special agreements with the US would also antagonise Japan's other trading partners.

However, if Japan rejects such deals, negotiations will shift to issues potentially more sensitive for the LDP. The second alternative would be reform of the so-called structural impediments of Japanese attitudes and business practices, which many foreign companies allege discriminate against them.

Senior Japanese officials expect the US to renew calls for Japan to become a more consumer-led society, which saves less and spends more. The gross savings ratio in Japan in 1990 was 34.6 per cent of GDP, compared with 14.4 per cent in the US.

The opening of markets has supporters among Japan's younger politicians and consumer groups, as well as Bank of Japan governor Mr Yasushi Mieno and senior officials at the Ministry of Foreign Affairs.

But for structural reform to succeed, the LDP would risk alienating some of its most important constituencies, by opening up relatively protected industries such as construction, retailing and agriculture. The construction industry is a vital source of funds for the LDP; and the party's base is in rural constituencies.

In the late 1980s the LDP briefly squared the circle. It stimulated the economy, cut the trade surplus, mollified Washington and still satisfied domestic supporters because high growth avoided painful economic change. It will not be so easy this time. In the next few months the government will tread a tortuous path between alienating the US by resisting its demands, loosening the finance ministry's grip on public purse strings, and forcing its domestic business supporters to accept reform.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

High cost of Czech currency exchange

From Mr Paul A Ashmore.

Sir, Mr Vladimir Dlouhy should look internally if Czech economic recovery is not to be stifled by unfair trading conditions (Lettere, June 2). The recent addition of little stamps in the corner of common currency notes to differentiate them in the Czech Republic and Slovakia has ensured that Czech notes are not accepted in Slovakia and vice verss. Hotels will "exchange" notes at 83 per cent of face valne, plus 2 per cent handling charge, and banks at 88 per cent, plus 2 per cent.

Consequently, on my recent journey from Frenstat (N Moravia) to Smokovec (Slovakia) and return to Brno (S Moravia) my Czech-Slovak currency lost 26 per cent at bank rates and 34 per cent at hotel rates. Thesa penal exchange rates and non-acceptance of each other's currency was not notified by Cedok, the common tourist agency. I urge Mr Dlouhy to review this monetary policy if the tourist trade *is not* to be *stifled*.

Paul Ashmore,
Ashmore & Jones,
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Sleaford, Lincs NG34 7DY

Manufacturers protected already – at a cost

From Philip Oppenheim MP.

Sir, Claude Imhert of Le Point suggests that we "extend to other sectors the system of Community preference already in place in agriculture" (the Common Agricultural Policy); and that "we [the EC] should not fear to bring in quotas" to restrict imports of manufactured products ("Visions of Europe", June 1).

I am sorry to have to disabuse Mr Imbert of his beguil*ing notion* of a CAP for industry, but the truth is that the Community has already been following this policy for years. Euro-champions such as Philips and Thompson have been granted huge subsidies while import quotas and anti-*dumping* duties *cover* a huge swathe of manufactured products ranging from steel to CD players and cars to machine tools. Indeed, there are very few goods which are not covered hy some kind of EC import barrier.

The result has heen that Europe's industry has become steadily more uncompetitive, and less and less able to compete outside of its high-cost, protected European base. A bit like the CAP, really.

Philip Oppenheim.
House of Commons,
London SW1A 0AA

Banana producers need support while diversification takes place

From Ms Harriet Lamb.

Sir, In last year's much *fought-over deal, the EC has* not "Gone bananas" (Editorial, June 3). The livelihoods of farmers, communities and, in some cases, whole nations rest on the EC standing by those promises of assured access to bananas from African, Caribbean and Pacific (ACP) countries.

Europe has historical obligations to comtries where it crested and maintained a dependency on bananas. The EC also has legally binding obligations under the Lomé Convention to maintain protection of ACP bananas until the year 2000.

Without *that shelter*, the fairer wages and better working conditions of small-scale farmers in ACP countries will be sacrificed for cheaper fruit grown by US multinationals on huge Latin American plantations. In the Windward Islands, for example, unemployment could quickly double to two-thirds of the workforce.

Responding to predictions of *sharp price rises, agriculture* commissioner Steichen points out that prices are higher in Germany, where no import duties are imposed, than in the Benelux countries, which *already* apply the 20 per cent import duty now being extended EC-wide.

EC banana imports have risen substantially in recent years, with Latin American producers increasing their share from 50 per cent to 67 per cent over three years. They will he the beneficiaries of future growth in consumption, notably in eastern Europe. *Moreover*, the Community has said that quotas may be increased to meet future demand. The current agreement simply maintains ACP producers' present import levels, giving them time to adjust their economies.

Everyone agrees on the need to encourage growers of Eurobananas to diversify, but that cannot be done overnight. Instead the EC should *support* long-term diversification programmes in ACP countries, while continuing preferential access until 2000.

Harriet Lamb,
campaigns officer,
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Power sharing in South Africa

From Mr David Steward.

Sir, Your report that President De Klerk had "rejected black majority rule" created *widespread confusion and con*cern ("De Klerk resists rule of black majority in S Africa", May 26).

President De Klerk rejects the Westminster "winner takes all" formula because of his conviction that as many of South Arica's complex interest groups as possible should feel themselves included in, rather than alienated from, government. This can be achieved through acceptable mechanisms such as strong regional states, the constitutional limitation of majority power, without a minority veto, and special majorities for some types of legislation.

Most of our parties are multiracial, so there is no question of resisting "Black majority rule" or of entrenching "white" power. President De Klerk rejects the abuse of majority power to tha detriment of minorities, however that majority is composed. He and other political leaders believe that, at this stage, no single party can rule South Africa alone regardless of its majority. They accordingly support the idea of a government of national unity based on power sharing during the first five years. However, the underlying realities will not change during that period and some inclusive formula for the continuation of a form of power-sharing will, in all likelihood, be necessary.

David Steward,
government spokesman,
Office of the State President,
8000 Cape Town,
South Africa

Price to pay for clearer roads

From Mr Hugh Walker.

Sir, I fully endorse your editorial, "For whom the motorway tolls" (June 2). There should be two reasons for road pricing and fuel taxes.

The first is to encourage more energy-efficient transport and a switch from road to rail.

The second is to relieve urban congestion and pollution in Britain.

As you suggest, there may be a third reason in the government's mind, namely to raise *revenue for the massive* hudget deficit. This has nothing to do with the environment, any more than the VAT on heating bills does.

To encourage more energy-efficient transport, taxes must be raised on fuel. In fairness, Mr Lamont, the former chancellor, indicated in his last Budget that the government would do just that over a period of time. There is plenty of scope for tax increases. The price of petrol is around 20 per cent cheaper in real terms than it was 10 years ago. A £3 gallon of petrol would not be out of order.

There is no easy way of combating urban congestion. Fuel taxes will not significantly affect it, though they will longer journeys. Road pricing or severe restrictions on parking are the only solutions.

Howsver, as David Howell MP suggested (Letters, June 2), it is important to provide attractive alternatives for motorists, not just pocket the cash. I'm glad the FT is promoting this debate.

Hugh Walker,
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FINANCIAL TIMES

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Monday June 7 1993

Say 'no' to managed trade

THE CLINTON administration is, it occasionally seems, the only government in the world that believes in a planned economy. The planned economy it believes in is Japan's.

It believes planning helped make Japan the world's most successful economy. It believes also that the problems Japan poses to its trading partners can best be dealt with by more planning. If, as seems certain, the US acts on those beliefs, completion of the Uruguay round, allegedly in sight, may mean far less than is hoped.

Mr Mickey Kantor, the US trade representative, argued at the ministerial meeting of the OECD last week that "in vital areas, Japan's economy is not open". The US is, accordingly, to present Japan with tough demands for market opening. Those demands will embrace computers and supercomputers, cars and car parts, and financial services, for all of which targets for import shares are likely to be proposed. In addition, the US is, apparently, to call on Japan to halve its current account surplus, from the present level of 3 per cent of gross national product to 1½ per cent.

For its part, the European Commission will ask the Japanese to tighten their probably illegal export cartel against EC consumers of cars and light commercial trucks, on the principle that they should share equally in a downturn, irrespective of the demand for their products. No less a figure than the OECD's Mr Jean-Claude Paye, secretary-general of an organisation whose *raison d'être* was trade liberalisation, legitimised this policy with his statement that he would "not rule out protectionism as a policy of last resort".

Important relationship

Nevertheless, voluntary export restraints like those on Japanese car exports to the European Community are an old story and Mr Paye, despite his prominent position, is not president of the US. What makes the US proposals to Japan important is that they come from the country that created the postwar trading system. Yet it now apparently believes that the norms and rules of the Gatt are largely inapplicable to its most important trading relationship.

Why it does so is not self-evident. Does the US administration believe that the Japanese government can manage the external account to within half a percentage point? Does it expect changes in sectoral trade balances to have a one-for-one effect on Japan's overall trade balance? Does it recognise that sectoral import targets imply the cartelisation of targeted Japanese industries? Does it acknowledge that trade surpluses are a more or less inevitable outcome of a world with freedom for capital flows?

Greater opportunities

Yet while all this is going on, the OECD ministerial communiqué states that ministers will "do their utmost... to ensure the rapid achievement of a substantial, comprehensive and balanced outcome of the round". Efforts are, it appears, being made to complete a comprehensive market access package. Greater opportunities to sell goods and services in foreign markets are the hard coin of trade negotiations. If the agreed liberalisation were to be radical, the Uruguay round might not only be close to completion, but would also be worth completing.

Unfortunately, any multilateral agreement is only as good as the credibility of the commitments that underlie it. This is why it is so destructive for the US to claim that the world is on the brink of a great liberalising agreement, but that it reserves the right to act outside it. If such agreements are to endure, as they must, participants must believe that the agreement is balanced, is in their own interests and will be effectively implemented.

There cannot be both an effective multilateral trading system and the right to act unilaterally, as and when one pleases. Instead of pursuing its narrowly bilateral course with Japan, the US should try to establish clear rules and multilateral procedures applicable to all countries that are alleged to violate their commitments. Mr Clinton must be told to choose between the rule of trade law and the law of the trade policy gun. He will not be able to have both.

Maxwell: keeping the issue in sight

JUST THREE of the 55 charges for which Invesco MIM was fined last week by its regulator, the Investment Management Regulatory Organisation, related to the scandal of the Mirror Group Pension Scheme. Imro gave no details of these breaches of regulations. Nor did it say how seriously it viewed these lapses compared with, say, pricing errors in unit trusts or defective record-keeping. Meanwhile, it appears that the Securities and Investments Board intends never to publish its own report into the failure of Imro to prevent the Maxwell disaster.

Somehow, the main issue – the failure of law and regulation to stop the multi-million pound Maxwell thefts – seems to have slipped from sight. Maxwell pensioners might well view this with dismay. Millions of others are left to worry about the security of their own pensions.

Imro can argue that it has performed its latest regulatory task with diligence, and that its ability to complete disciplinary proceedings within a morning shows up the wastefulness of formal legal proceedings through the courts.

But Imro has been acting here in conjunction with the Securities and Investments Board, and it is SIB's responsibilities which raise the more interesting issues. Only two weeks ago, after all, SIB chairman Mr Andrew Large published his formal review of the regulatory system for the financial services industry, a review stimulated precisely by the Maxwell affair.

Vigorous enforcement

Mr Large concluded that, in general, standards of regulation had to be laid down and enforced more vigorously by SIB. In particular, the board ought to be more prepared to use its own powers, including the banning of individuals from the financial services industry under Section 59 of the Financial Services Act, and its ability publicly to criticise authorised persons under Section 60. Neither of these sections has been used before. There is also Section 61 which covers restitution on behalf of investors.

Whether immediate action under these headings is likely is not clear. On Section 59, for instance, it is understood that SIB will seek to publish a policy paper before selecting its first victim. In his review Mr Large said that Section 59 had previously been thought impractical to use, but a way of implementing it had recently been worked out. He expected SIB to be seen to make use of Section 59 in future.

With the disciplinary process by Imro over Invesco MIM complete, the opportunity for SIB action is now available. Indeed, Mr Large's brave words could be viewed as empty if SIB were to fail to respond to by far its biggest disciplinary case so far.

Broader canvas

SIB has to work, however, on a broader canvas. Legal actions by the Mirror Pension Scheme Trustees against Invesco MIM for the recovery of lost assets are under way. Criminal charges are pending against Mr Robert Maxwell's sons. These legal cases make matters more complicated. Clearly, however, SIB cannot afford to wait for years until the courts have finished their job.

There are also problems of jurisdiction. For instance, pension fund trustees and, in some cases, even custodians do not fall within the boundaries of the Financial Services Act. The hope is that the Goode Committee on pension law will come up with some answers, but it will not now report until the end of September, with legislation further off.

In the meantime the welfare of the Maxwell pensioners becomes pressing. The question is whether Section 61 would be the best way of claiming compensation from companies and advisers connected with Maxwell, or whether SIB should use that potential weapon to encourage a general voluntary settlement.

SIB appears to be using its influence to encourage a settlement through the charitable trust headed by Sir John Cuckney. Perhaps this is the only way to ensure that reasonable sums are raised soon enough to help old-age pensioners. Such a solution would, however, serve to emphasise the frailty and pragmatism of the system. What is really needed is a demonstration that investors, and certainly the vulnerable members of pension schemes, can look for powerful and reliable protection.

EC countries are reluctant to give eastern Europe freer access to their markets, report David Marsh and Lionel Barber

Morsels from a groaning table

The former communist countries of central and eastern Europe have come in from the cold. Yet their exports are still frequently being frozen out of western markets.

In the past few years, the principles and practices of western capitalism have streamed into eastern Europe. The European Community's exports to the region are booming. But the goods produced there are a long way from flowing westwards with the same momentum.

The EC has decided on a partial liberalisation of trade with Poland, the Czech and Slovak republics, Hungary, Romania and Bulgaria under association agreements concluded during the last 18 months. So far, however, the Community appears to have received the better part of the bargain. The EC's trade surplus with the five core countries in the region (now six following the break-up of Czechoslovakia) rose to Ecu2.5bn last year from Ecu1.4bn in 1991. During previous years, up to 1990, the EC ran a deficit with the region.

The association agreements, while setting down a 10-year timetable for dismantling trade barriers for industrial products, still contain a significant element of protectionism. In particular, limits remain in force on eastern exports of so-called "sensitive" goods such as iron and steel, farm products, chemicals, textiles, clothing and footwear.

In all these products, the west is suffering from overcapacity. These are, however, precisely the sectors – making up 35 to 45 per cent of eastern Europe's exports to the EC – where, on grounds of price and quality, the east has the greatest export potential. The barriers highlight the EC's apparent desire to keep out imports in any area where eastern Europe is competitive.

Aware that freer trade has, up to now, mainly benefited the west, the EC Commission has launched an initiative to improve the terms of the liberalisation timetable.

Combined with plans for greater political dialogue with eastern European countries, the trade proposals will be high on the agenda at the EC summit in Copenhagen on June 21-22.

Under the proposals, pushed through by Sir Leon Brittan and Mr Hans Van den Broek, the EC's two external affairs commissioners, customs duties on industrial goods such as cars would be lifted by the end of 1994 – a two-year advance on the initial plan. Additionally, the Commission wants to shift from a quota-based system for imports to less restrictive ceilings, so that the east Europeans would not automatically face higher tariffs if they breached import targets.

Although bolder than forecast, the plan, if implemented, would be relatively modest. Fundamental restrictions on agriculture and textiles would remain. The Community would also reserve the right to impose "contingent protection" – for instance, anti-dumping duties – against sudden surges in low-price imports of industrial goods.

The Commission believes the proposed softening of trade terms represents the maximum that can be agreed by EC governments in view of recession-induced protectionist pressures. Last week, Mr Van den Broek pointed to "reserve" among member states about the economic implications. Longer-term logic, however, points to the need for further liberalisation.

Opening the door to eastern exports provides one of the best ways of stimulating the region's prosperity – and hence of securing its political stability.

Many EC states, above all Germany, want to see more economic growth in the east as a means of stemming migration of dissatisfied easterners. Lower barriers would provide a means of satisfying western companies investing in the region that their output will find export outlets.

Mr Jim Rollo, a trade policy expert from Britain's Royal Institute of International Affairs, who believes the Commission's latest proposals do not go far enough, highlights the potential benefits of more vigorous measures. High growth in the area could increase overall imports into eastern and central Europe by as much as $400bn a year (at 1990 prices) by 2010, he estimates. At least half of this would represent purchases from the EC, increasing demand for EC goods by $200bn a year – twice as much as the Community currently sells to the US. "It would be like having two new US markets on your doorstep," Mr Rollo says.

For all the longer-term arguments in favour of liberalisation measures, the problems faced by specific EC industries greatly increase the political difficulty of pushing them through.

Tomorrow, EC foreign ministers will discuss the Commission's package in Luxembourg. Most countries have voiced some objections. But the Danish presidency of the EC remains confident, declaring that package is "the bare minimum for the Community to remain credible with these [eastern] countries".

Portugal remains the most obdurate. Although less than 0.5 per cent of its total imports come from eastern Europe, Lisbon argues that more liberalisation would squeeze its exports, particularly textiles, out of EC markets – a fear broadly shared by France and Belgium.

Germany is now signalling unreserved support, increasing the likelihood of a successful outcome. Last year, Germany last year accounted for 58 per cent of EC trade with the five core eastern countries – twice as much as the combined eastern trade of France, Italy and the UK. Despite the severe economic downturn in Germany, Chancellor Helmut Kohl's emphasis on the political stakes has tipped the balance in Bonn.

Doubts among industrialists remain, however. Mr Ludolf von Wartenberg, general manager of the Federation of German Industry, says his organisation welcomes the proposals "in principle". But he points out that, for the first time in the industrial era, Germany now faces the risk that jobs will migrate to low-wage countries on its doorstep. Hourly wages in the Czech and Slovak republics, Hungary and Poland are between one-tenth and one-twentieth of levels in western Germany. One Bonn government official says: "It is as if we had Hong Kong just 80km from Berlin."

An EC compromise on steel imports from the Czech and Slovak republics, agreed in April, highlighted the importance of German views. Mr Martin Bangemann, the EC's industry commissioner, went to Germany to explain the agreement to steel executives.

The volume of Czech and Slovak steel imported into the EC will be allowed to rise about 36 per cent this year compared with 1991 figures. But even this increase will still lead to a sharp cut in imports compared with 1992, when imports from the east were much higher than the year before.

EC industrialists and farmers regularly underline the threat posed by eastern imports. Qualms about eastern competition were illustrated by EC anti-dumping action against eastern steel exporters last year.

In April, the EC imposed a one-month ban on imports of live animals, meat, milk and dairy products from the east. Although the EC claimed this was aimed at stopping spread of foot-and-mouth disease, eastern Europe saw it as blatant protectionism. The measure was quickly rescinded after outraged eastern European countries took counter-measures.

For specific products such as fertilisers and steel, relatively small extra volumes of eastern imports can squeeze loss-making western producers by causing large reductions in marginal prices. In overall foreign trade terms, however, opening of trade to the east has clearly brought net advantages to the west.

Without adequate eastern access to western markets, the gap in economic performance cannot narrow significantly

In 1991 and 1992 the Community's exports to central and eastern Europe rose faster than its imports. Compared with 1988, the EC's exports to the region last year were up 130 per cent, while imports were up 82 per cent.

An unpublished report from the Organisation for Economic Co-operation and Development shows that, even in some of the so-called "sensitive" goods, the industrialised west has registered benefits in trade with the east. Based on a breakdown of 1991 figures (full product details for 1992 are not yet available), OECD countries that year improved their eastern trade balances in several areas of trade in this category.

The report points out that exports of "sensitive" products often represent the sole means for eastern countries to compensate for sharp falls in formerly staple exports to the old Soviet bloc.

The EC's trade surplus has probably increased further this year. Exports from the east have been curtailed by the recession in Germany, as well as by overvaluation of eastern European currencies.

The Czech Republic increased exports to the EC by only 1.9 per cent in the first quarter compared with the same period last year. Czech imports from the EC, by contrast, rose 40 per cent against the year-earlier period. Hungarian exports to the EC in the first quarter this year are reckoned to have fallen about 25 per cent compared with the same period in 1992.

The growing trade gap in the EC's favour demonstrates one reason why the EC can afford more generosity. Another more fundamental argument in favour of liberalisation focuses on the large imbalance in the relative importance of trade between the two halves of Europe.

"A billion dollars of extra trade is trivial for us [the west], but it is highly significant for them," says Mr John Flemming, chief economist at the European Bank for Reconstruction and Development (EBRD). Further liberalisation would have only a small impact on the west, he says, but could bring "colossal" benefits for the east.

The combined value of the EC's trade with central and eastern Europe last year made up only about 1.7 per cent of the Community's total exports and imports – less than the EC's trade with either Austria or Sweden.

Central and eastern Europe is the source of only a tiny proportion of EC countries' overall imports of "sensitive" goods. In 1991, according to OECD figures, the percentages ranged from 1.7 per cent for chemicals and 2.3 per cent for agricultural products to 2.7 per cent for iron and steel and 2.8 per cent for textiles. Following a sharp reduction in sales to the former Comecon area, central and eastern European countries, by contrast, now carry out about 50 per cent of their trade with the EC, compared with roughly 25 per cent in 1989.

Eager to seize opportunities for western sales, east European trade representatives in Brussels have reacted favourably to the latest Commission proposals. The reception from governments at home, however, has been more grudging. Mr Vladimir Dlouhy, the Czech industry and trade minister, highlights "serious obstacles" in export access to the EC.

In Warsaw, however, one senior Polish official takes a more moderate line. The EC plan represents "not five steps forward but half a step forward," the official says. At least, the proposals show "the EC is starting to speak the same language as we have been using".

Beyond the question of trade, the main preoccupation for central and eastern Europe is the question of joining the EC. As a fundamental part of the association agreements, these states have committed themselves to adapting their political and economic structures to the demands of eventual membership.

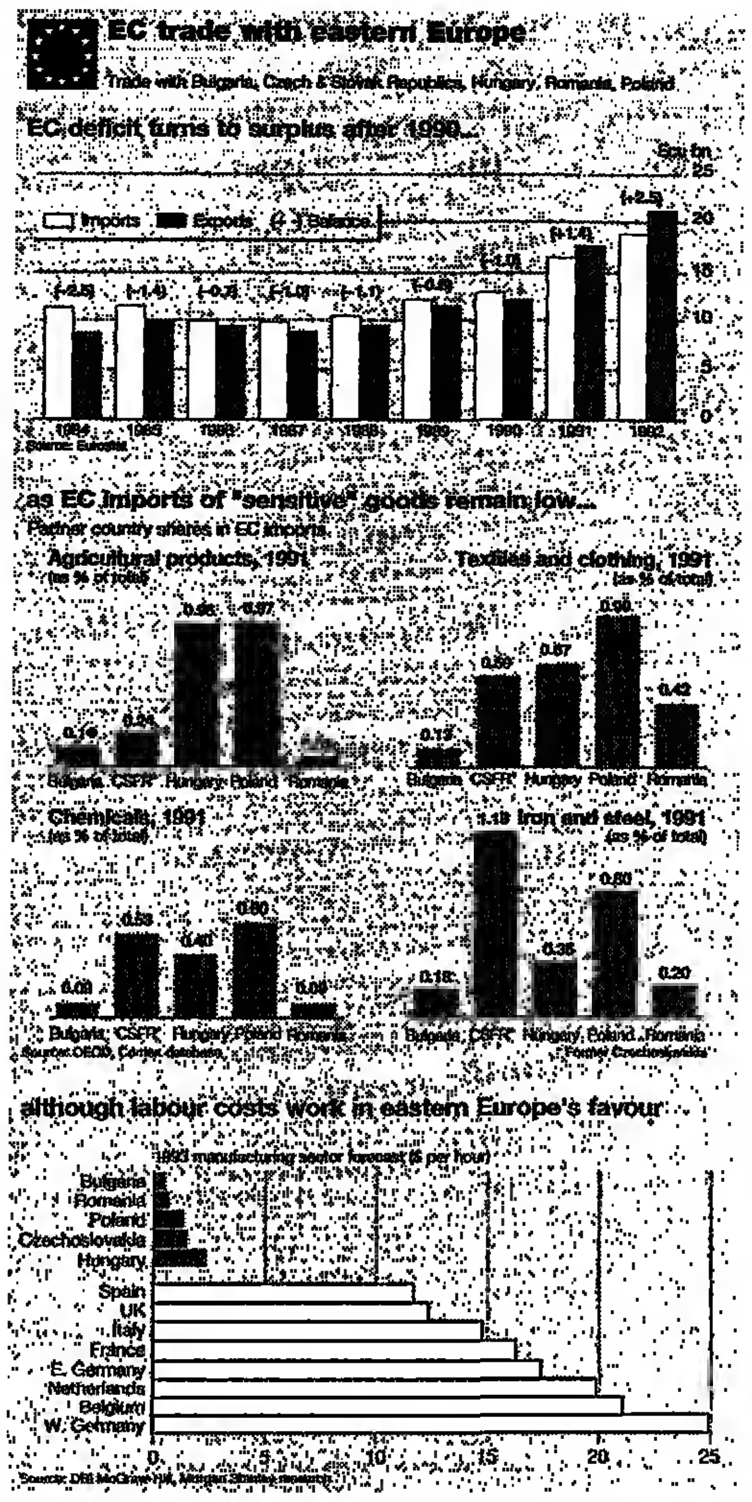
Mindful of the cost of absorbing much poorer countries, the EC is, however, avoiding giving the easterners a firm date. Even the Commission's relatively vague plans for greater political dialogue with the east have caused concern among traditionalist member states such as Belgium, wary of opening the membership door.

"It doesn't make sense to speculate about any [membership] date," Mr Van den Broek said last week. One senior EC official says pointedly 2000 is the year not when these countries can join, but when they can have free trade.

The Community is implicitly making membership conditional on a reduction of the economic gulf dividing the EC and the eastern applicants. At present, GDP per capita in Poland, Hungary and the Czech and Slovak republics is probably between one-fifth and one-tenth of the EC average.

Without adequate eastern access to western markets, the gap in economic performance cannot narrow significantly – condemning the east to an indefinite wait. If, on the other hand, the Community can decisively accelerate trade liberalisation, the period in the EC anteroom would be shorter and less arduous. And the eventual rewards would be much greater – for both east and west.

Additional reporting by Christopher Bobinski, Patrick Blum and Nicholas Denton



OBSERVER

Stern choice at the EBRD

■ The row over who should take over the tiller of the European Bank for Reconstruction and Development if poor old Jacques Attali is forced to walk the plank, is starting to get out of hand.

Whatever one thinks of Attali's time at the helm – and don't forget that the first president of the EBRD's World Bank grand-daddy was booted out after only six months – he is a European, at least. True, the US is the biggest shareholder, but the Europeans have majority control. Just as the Americans like to have one of their own running the World Bank, it is hard to imagine the Europeans hiring a yank to head their bank.

Of course, it would be a tremendous coup for the EBRD if it could recruit someone of the calibre of the World Bank's Ernie Stern. But why should German-born Stern, 59, want to move from being number two at the World Bank to being number two at a much smaller and less influential institution, unless he was pushed out?

However, there is another Stern who has just found a safe berth in the EBRD. Professor Nicholas Stern, a 47-year-old development economist at the London School of Economics, has agreed to step into the chief economist's slot at the EBRD, following the sudden withdrawal of Michael Bruno, former head of Israel's central bank.

The EBRD job had always looked a rather odd move for a politically well-connected sort like Bruno. Perhaps he does have his eye on the chief economist's job at the World Bank after all.

Foreign elite

■ David Heathcoat-Amory's arrival as the new minister for Europe today consolidates the hold of Old Etonians on positions of power in the Foreign Office.

Observer cannot remember the last time that four out of six FO ministers all went to Eton. Doubtless, having OEs at the FO is jolly good for keeping up appearances on the international stage, but it is hard to imagine Lady Thatcher permitting Britain's international relations to fall into the hands of a similar cabal when she was running the show.

However, all is not lost. Old Etonian Douglas Hurd has long been rumoured to want to step down as foreign secretary before the end of this parliament which should give John Major a chance to promote a grammar school boy to chief flag-waver.

Gatt tactics

■ Virtually everyone agrees that Peter Sutherland, the EC's nominee and former EC competition commissioner, would make a first-class director-general of the

'Don't worry – we're insured with Lloyd's'

General Agreement on Tariffs and Trade. So what is to be made of the last-minute shenanigans in the run-up to Wednesday's election of Gatt's new boss?

Some Latin American trade ambassadors have been miffed by the general assumption that with European and American backing he is a shoe-in for the job, leaving the two Latin American nominees, Juan Fernando Jaramillo of Colombia and Julio Lacarte-Muro of Uruguay as also-rans. But experienced Gatt hands suspect a sub-plot. What is really at stake is the distribution of deputy posts. One is earmarked for an American. The second has up to now gone to India, and Latin America desperately wants the new one likely to be created.

Back to basics

■ Lord Nuffield, the wealthy car tycoon who founded Nuffield College, would be proud of today's Employment in Britain survey. Nuffield was never happy with the idea of his college being regarded as a citadel of the social sciences at the expense of his beloved engineering industry.

So the news that the bulk of the research for the survey was carried out by Dr Duncan Gallie, a Nuffield fellow, and funded jointly by the Department of Employment and the Leverhulme Trust, plus private companies such as British Steel, BT, Sainsbury, and NatWest, would be music to the late tycoon's ears. A first sign from Britain's industrial heartland, perhaps, that social research into the workplace may be an assistance and not a threat to industrial progress?

Shooting star

■ Proof that the day of the entrepreneur is not yet over comes in the dashing form of Ivan Bradbury, owner of printed circuit board maker Interconnection Systems, based in a depressed part of north-east England.

Bradbury heard a few weeks ago that electronics giants Hewlett-Packard of the US and Japan's Oki were closing their state-of-the-art $40m factory in Puerto Rico after internal disagreements. He jumped on a plane and secured a deal which is bringing some 35 container loads of barely used, high-quality manufacturing equipment back to South Shields for the knock-down price of just over £1m, a fraction of how much it cost when the plant started operations a year or so ago. The deal will boost Bradbury's output significantly.

Let's hope he doesn't slip up because he is one of the few star turns on the Treasury's industrial prospects committee.

Transplanted

■ Has Robin Leigh-Pemberton caught that "end of term" feeling? With less than a month to go before he steps down as governor of the Bank of England, it sounds as if his jokes are becoming rather risqué.

He's been wowing New York bankers with a variation on the old tale about the heart transplant patient who was offered a choice of donors: an 18-year-old athlete or a 70-year-old central banker. The preferred Leigh-Pemberton version involves a brain transplant and a senior Treasury official, although the punchline's the same. The patient chooses the Treasury official's brain – because the organ had never been used.

But when it comes to recycling old chestnuts, who is Observer to complain?

FINANCIAL TIMES
Monday June 7 1993

Lady Thatcher expected to lead Euro-sceptic calls for referendum

Major faces Maastricht revolt

By David Owen

AN EMBATTLED Mr John Major, the UK prime minister, was today preparing for a fresh assault on his European policies when the Maastricht bill is introduced into the House of Lords.

With disenchantment at the prime minister's leadership threatening to break into open revolt in Tory ranks, Lady Thatcher, the former prime minister, is expected to spearhead calls for a Maastricht referendum from a distinguished list of Euro-sceptic peers.

A record 133 peers have asked to speak in what is certain to be the most highly charged Lords debate in years. Lady Thatcher's contribution is expected today, with an equally trenchant attack from Lord Tebbit, the former Tory party chairman, likely to come tomorrow.

Though the Lords can only delay the measure and this week's debate is highly unlikely to end in a vote, the publicity it will generate could hardly have come at a worse time for the prime minister. The bill completed its tortuous passage through the House of Commons last month almost exactly a year after receiving its second Commons reading.

With pressure mounting for the prime minister to reassert his authority, the opposition Labour party was planning to take advantage of his weakness by staging a set-piece debate on government policies on Wednesday to follow hard on the heels of the Maastricht exchanges.

The occasion will give Mr John Smith, the Labour leader, a rare opportunity to take the prime minister on head-to-head in a full-length Commons debate. Mr Smith is expected to place particular emphasis on broken Conservative pledges and aspects of economic policy.

As senior Tories attempted to rally round Mr Major, the party's morale was dented further by the results of two weekend opinion polls.

A survey of 52 constituency party chairmen – normally regarded as an ultra-loyal group – found that more than a quarter of them wanted the prime minister replaced.

The poll, conducted by the Sunday Times, showed that a clear majority of constituency chairmen were dissatisfied with the government's performance.

Coming after last week's Gallup poll which indicated Mr Major was the least popular UK prime minister since polling records began, the survey will reinforce the impression that last month's cabinet reshuffle has failed to lift the cloud hanging over the prime minister.

In a further blow, an NOP poll for the Mail on Sunday in the Christchurch constituency showed the Conservatives could be facing a second consecutive by-election defeat at the hands of the Liberal Democrats.

The survey gave the Liberal Democrats, on 53 per cent, a comfortable 15-point lead over the Tories, with Labour, backed by just 7 per cent, in a distant third place.

The result represented a 27 per cent swing from the Conservatives, who will be defending a majority of more than 23,000 at the seat, to the Liberal Democrats. In last month's Newbury by-election, the Liberal Democrats achieved a swing of 28 per cent in winning by 22,000 votes.

Nearly three-quarters of those questioned said that the cabinet reshuffle in which Mr Norman Lamont was replaced as chancellor by Mr Kenneth Clarke, the former home secretary, had made no difference to their voting intentions.

Though a date for the Christchurch by-election has yet to be fixed, there are increasing expectations that it will be set for mid-July.

Heseltine told to clarify role in Nadir case....................Page 6

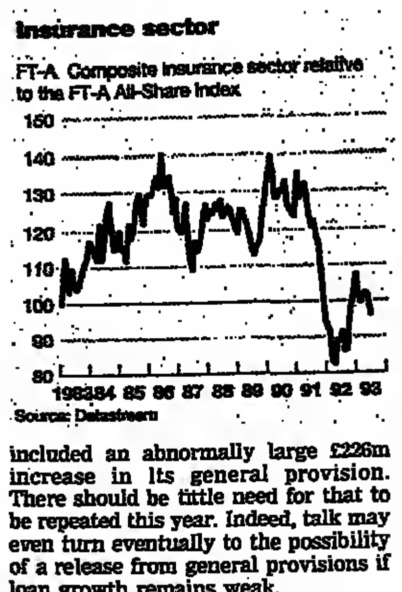
THE LEX COLUMN

In the heat of the Sun

Mr Donald Gordon does not have the popular appeal of Mr George Soros but, within the narrow world of insurance, his investment decisions are influential. The stake in Sun Alliance unveiled last week by Transatlantic, his investment vehicle, was enough to lift the insurance sector against the trend of a falling market. Since Mr Gordon is also a notable investor in commercial property, and Sun Alliance's investment portfolio is heavily weighted in that direction, the comparison with Mr Soros's investment in British Land might not be too far fetched.

Anticipation of a bid for Sun Alliance certainly looks premature. Transatlantic took control of Sun Life in 1991, but only after more than a decade slowly building its stake. Since Transatlantic is capitalised at one third the size of Sun Alliance, an outright bid would be difficult anyway. UAP of France, a partner in Transatlantic, is large enough to swallow such prey. But dire conditions in its domestic market and the prospect of privatisation leave it occupied closer to home. Even so, Transatlantic's visible presence on the share register must be discomforting for Sun Alliance's management, not least while litigation between the two sides is outstanding.

The market's reaction in marking up insurance shares across the board is strange. If Mr Gordon's investment really is a play on rising asset prices, composite and life insurers might be expected to benefit. But with most already trading at a premium to net assets, it is difficult to argue that the sector is undervalued.



UK banks

The more optimistic tone of the UK property market is good news for the clearing banks. For once, there is a chance that their bad debt provisions may be a pleasant surprise. Touche Ross had more good news last week on receiverships which fell nearly 30 per cent in the first five months of the year. Queens Moat apart, there has been a remarkable dearth of large corporate problems. Perhaps, despite Speyhawk, banks are learning not to call in their loans as soon as collateral values start to rise. Small companies certainly seem less squeezed than usual for this stage of the cycle. The unexpected fall in unemployment also promises fewer defaults on personal loans.

The largest beneficiary should be Barclays whose results last year included an abnormally large £226m increase in its general provision. There should be little need for that to be repeated this year. Indeed, talk may even turn eventually to the possibility of a release from general provisions if loan growth remains weak.

Better pre-tax profits may not, though, have much immediate impact on dividends. Having flagged 6 per cent as its target ratio for tier one capital, Barclays will need to concentrate on retaining earnings. National Westminster also needs to build up its 5.2 per cent capital ratio. Apart from mortgage lending, on which they enjoy high margins at present, many banks are still heavily dependent on cost cutting for gains in operating income. After outperforming by 15 per cent so far this year, the sector needed good news on provisions to justify its advance.

Telecommunications

Of the two 'deals of the century' BT did with MCI last week, only one makes a great deal of sense. The joint venture in international private networks and value-added services is a reasonable, if limited, initiative to capture the business of large multinationals. Even here, however, the rush towards setting up alliances seems well in advance of a real market opportunity, and is reminiscent of the banks' charge into the securities business. BT's purchase of a 20 per cent stake in MCI is the really worrying part of the transaction. It is a little odd that the deal comes after the bullish swirl surrounding MCI has pushed the share price from around $35 to over $50 this year. BT's defence is that it needs the stake to cement its relationship with MCI, but $4.3bn seems a high price for security.

Attention has also focused on AT&T's possible response. Short of the unlikely and petulant course of pulling out of the deal to buy McCaw, AT&T is somewhat hamstrung. There has been speculation that AT&T might buy Vodafone or Mercury from Cable & Wireless. With Bell Canada a partner in Mercury, a deal there looks improbable. Buying Vodafone would be expensive, even for AT&T, and its gearing would be stretched even further.

Indeed, as US telecoms companies have average gearing of 85 per cent, it is notable that BT will still only have gearing of 30 per cent after the MCI deal is completed. That leaves open the prospect of continuing good dividend growth or further acquisitions of minority stakes in other telecoms companies at premium prices. Since BT has not yet shaken off the latter habit, it may expect scepticism until it makes one of these deals really work.

British Airways

Life grows no easier for British Airways, despite moves towards a settlement with Virgin. That would remove any lingering fears that the company might be shaken by further embarrassing revelations resulting from litigation in the US. But BA has now also flown into some fractious disputes with its own employees. One disagreement with its cabin staff over pay levels appeared settled last week. But an outstanding quarrel with its pilots could result in further disruption.

Any more strikes would be punitively expensive. Not only would they have an immediate financial impact but they could also sap BA's reputation for quality and service. Trading figures for May already showed a small, but worrying, drop in higher yielding premium traffic. Fears of lightning strikes seemingly encouraged business passengers to switch to alternative flights. Such concerns are unsettling for shareholders considering whether to take up BA's £442m rights issue.

Whatever the short term fall-out, though, shareholders may prefer BA to hang tough. City estimates suggest the airline could lose £50m at Gatwick this year. The elimination of such losses would greatly help BA's profitability. This cause will have been damaged if the fine print reveals that last week's settlement has bumpered its chances of creating a low cost base for European short-haul flights.

Eni group subsidiaries paid $150m in bribes to win deals

By Haig Simonian in Milan

SAIPEM and Nuovo Pignone, two leading Italian engineering companies, have admitted paying almost $160m in kickbacks and bribes to win new business in the past six years.

The revelations, contained in their 1992 reports and accounts, indicate the scale of payments the companies made to win big domestic and foreign contracts and to satisfy the demands of Italian political parties.

The revelations could start a trend in corporate accounting, as companies implicated in political corruption reveal to shareholders the scale and nature of previously secret payments, formerly kept off published balance sheets and paid via foreign subsidiaries.

Saipem, an engineering group specialising in the energy sector, and Nuovo Pignone, which makes gas turbines and compressors, are parts of the state-owned Eni energy and chemicals concern.

Eni, whose former chairman, Mr Gabriele Cagliari, is in Milan's San Vittore prison on corruption allegations, has been deeply implicated in the scandal.

Saipem's accounts show it paid almost $121.6m in kickbacks and "commissions" to win business between 1987 and 1992, while the smaller Nuovo Pignone says it paid L35bn ($2.25m).

The payments cover kickbacks to political parties on domestic orders from public-sector companies, such as Enel, and payments to unspecified foreign intermediaries to win foreign projects.

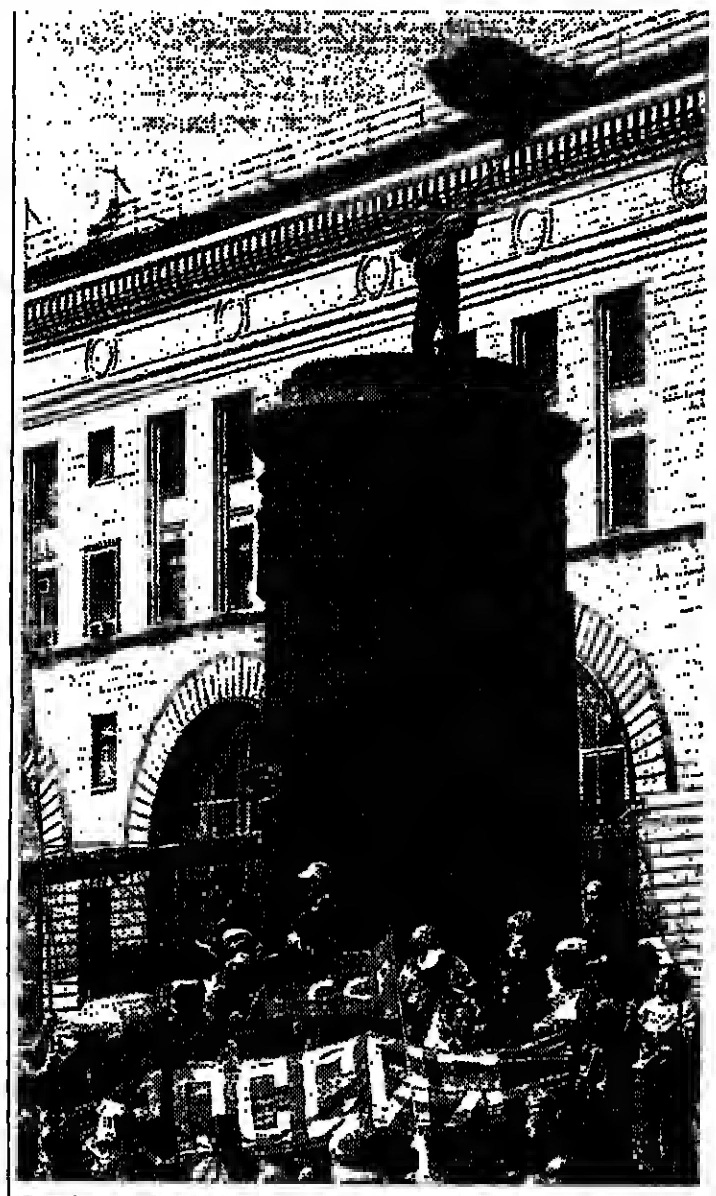
The accounts of Saipem, whose chairman, Mr Gianni Dell'Orto, was arrested earlier this year, show $91.4m was paid between 1987 and 1992 to companies controlled by Mr Pier Francesco Pacini Battaglia, a Geneva-based Italian banker who has emerged as a key figure in undeclared payments by the Eni group. Mr Dell'Orto is today expected to be formally replaced as chairman.

Almost $71m of the total is believed to have gone to foreign intermediaries to help win contracts, while the balance of about $20.6m was presumably paid to Italian political parties.

Saipem says a further $50.8m was paid directly by a Zurich subsidiary to unnamed foreigners. The group says it won about L12,000bn of contracts during the period.

The pressure for greater transparency is likely to grow as more companies are enmeshed in the corruption scandal.

Some of the burden has already shifted from individuals to companies as magistrates investigating political corruption have added charges of falsifying company accounts to those of corruption or illegal political funding already levelled against company executives.



Keeping red flag flying: A communist sympathiser protests from a dismantled monument in Lubyankya Square, Moscow, against President Yeltsin's constitutional proposals Democratic dealings, Page 3

Security Council holds talks on Somalia deaths

Continued from Page 1

have American support, she said.

Mr Boutros Boutros-Ghali, the UN secretary general, also called for "prompt and firm action" against perpetrators of what he termed a treacherous act against UN peacekeepers.

The secretary general, who was in Tunis on a north African mission, emphasised that the UN peacekeepers were trying to restore peace and bring reconciliation to Somalia as the country was reconstructed after its recent history of famine and factional conflicts.

● The UN began flying civilian staff to staff to Kenya for safety, and Farouk Mawlawi, a UN spokesman, said three flights were used to evacuate some civilian staff to Nairobi. Officials were also considering concentrating staff from isolated posts in Mogadishu at safer centres, Reuter adds from Mogadishu.

Some UN officials spent Saturday night in their offices, trapped by fighting in the streets. Foreign aid workers feared fresh attacks.

González battles to hold on to power in Spain

Continued from Page 1

votes, but some analysts were warning last night that the PP might still finish ahead of the Socialists in the number of seats won, even though it might win fewer votes.

The inability of the polls to be precise is a measure of how close the vote was expected to be as counting continued into the night. The PP was poised to take a number of key marginal seats away from the government, but those would depend on just a few hundred votes.

Because Spain's electoral system gives greater weight to rural provinces – which tend to vote conservatively – the PP might win more seats in parliament although it has a smaller percentage of the popular vote. Seats are allocated according to the percentage of the vote that a party wins in each of Spain's 52 provinces.

California pressed by Clinton to change law on taxes

By George Graham in Washington

THE CLINTON administration is quietly pressing California to change its company tax laws in a way that could settle the long-running dispute over its worldwide unitary tax system while raising more money for the financially-strapped state treasury.

If the change were to be made soon enough, it could also head off retaliation threatened by the British government against US companies and spare the Clinton administration from having to take sides in the lawsuit between California and Barclays Bank, which is the test case for the unitary tax system.

But some big California companies are beginning to move against the proposed change, which could cost them money, and state legislature officials say it will be hard to bring together the Democratic and Republican support it would need.

US Treasury officials are encouraging California to move to a mandatory "water's edge" system of corporate taxation, which state officials calculate could raise between $155m and $175m a year of additional revenue. Under this system companies are taxed only on income from operations within the borders of the US, whereas the worldwide unitary method calculates their global income, and then taxes it in proportion to their payroll, property and sales within the state.

California has already introduced water's edge reporting as an option, bowing to arguments from Washington that compulsory unitary assessments were out of line with the international tax system.

But foreign companies complain that they have to pay a fee to select this option, and that California reserves the right to overrule their choice and impose a unitary tax assessment.

Moving to compulsory water's edge taxation would bring California in line with the other 49 states and with most countries, and ought to settle the issues raised in the Barclays case, on which the Supreme Court has asked for the federal government's views.

But 20 to 30 per cent of companies operating in California, including Caterpillar and British Petroleum, benefit from the unitary system, and have in the past lobbied against a move to mandatory water's edge reporting.

The administration does not want the risk of California losing before the Supreme Court. The state, still in recession and needing to fill another $8.6bn budget deficit by June 30, could stand to lose as much as $4bn on Barclays and other related cases.

Democrats rebuffed, Page 4
Editorial Comment, Page 11

World Weather

		°C	°F			°C	°F			°C	°F
Ajaccio	S	26	79	Boulogne	S	23	73	Frankfurt	S	28	82
Algiers	F	26	79	Brussels	S	24	75	Geneva	S	25	77
Amsterdam	S	23	73	Budapest	F	29	84	Gibraltar	S	21	70
Athens	S	29	84	Buenos Aires	C	17	62	Glasgow	F	17	63
Bahrain	S	34	93	Cairo	S	34	93	Helsinki	C	11	52
Bangkok	F	36	97	Cape Town	S	18	64	Hong Kong	F	31	88
Barcelona	F	25	77	Caracas	F	31	88	Innsbruck	F	26	79
Beijing	S	31	88	Casablanca †	C	21	70	Inverness	F	15	59
Beirut	S	26	79	Chicago †	S	13	55	Islamabad	F	41	106
Belfast	S	17	63	Cologne	S	27	81	Istanbul	F	25	77
Belgrade	F	29	84	Copenhagen	F	18	64	Jakarta	R	32	90
Berlin	F	25	77	Corfu	S	29	84	Johannesburg	S	16	61
Bermuda	F	24	75	Dallas †	C	25	77	Lisbon	S	23	73
Bombay	F	33	91	Dublin	F	17	63	London	S	24	75
Bordeaux	C	26	79	Dubrovnik	S	29	84	Los Angeles †	S	13	55
				Edinburgh	F	18	64	Luxembourg	F	25	77
				Faro	C	20	68	Madeira	F	21	70
				Florence	F	31	88	Madrid	F	22	72

		°C	°F			°C	°F			°C	°F
Majorca	F	28	82	Oporto	S	22	72	Tenerife	F	23	73
Malaga	F	20	68	Oslo	F	18	64	Tokyo	C	19	66
Malta	S	27	81	Paris	S	25	77	Toronto †	S	13	55
Manila	F	36	97	Prague	S	27	81	Tunis	S	24	75
Melbourne	Dr	13	55	Reykjavik	F	9	48	Valencia	S	24	75
Mexico City	F	31	87	Rhodes	F	25	77	Venice	S	27	81
Miami †	S	27	81	Rio de Janeiro	R	28	82	Vienna	S	28	82
Milan	S	29	84	Rome	S	25	77	Warsaw	F	26	79
Montreal †	R	12	54	Salzburg	S	26	79	Washington †	F	17	63
Moscow	C	16	61	S'Francisco †	F	13	55	Zurich	S	26	79
Munich	S	25	77	Seoul	S	26	79				
Nairobi	C	23	73	Singapore	T	29	84				
Naples	S	27	81	Stockholm	F	17	63				
Nassau	C	32	89	Strasbourg	F	28	82				
New Delhi	S	41	106	Sydney	F	17	63				
New York †	S	16	61	Taipei	R	25	79				
Nice	S	27	81	Tangier	C	21	70				
Nicosia	S	25	77	Tel Aviv	S	39	102				

Temperatures at midday yesterday
† Noon GMT temperatures
C–Cloudy Dr–Drizzle
F–Fair Fg–Fog H–Hail
R–Rain S–Sunny
Sl–Sleet Sn–Snow
T–Thunder

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FINANCIAL TIMES
COMPANIES & MARKETS
Monday June 7 1993

INSIDE

KIO Spanish arm incurs big loss

Grupo Torras, the Spanish industrial holding company owned by the Kuwait Investment Office (KIO), ran up losses which vary widely from the small Pta3bn ($24m) profit reported by the former Torras management. Page 15

UK rate hope underpins gilts

The first week with Mr Kenneth Clarke (left) as chancellor of the UK exchequer contained little to move the gilt market. But expectations for an eventual cut in interest rates continued to underpin prices at the short end. A strong view in the market is that there will be no easing of monetary policy until Mr Clarke has mastered his brief and won the respect of the foreign exchange markets. Page 16

MAS expansion takes off

Malaysian Airline System is in the middle of a big expansion programme. However, the airline's latest results suggest MAS has flown into some nasty financial turbulence. Page 15

Lean times for Japanese bonds

The Japanese bond market has been going through a lean time as investors begin to discount economic recovery. The rise in the Tokyo stock market this year, partly due to the government's price support operation, has undermined hopes of further monetary easing by the Bank of Japan. Page 16

Cemex opens door for others

When Cementos Mexicanos, Mexico's large cement company, issued $1bn of bonds in the Euromarket last month, several records were set. The transaction met heavy demand and represents a new acceptance of Latin American companies in international markets. Page 17

Hotel float to raise HK735m

Shangri-La Asia's flotation of 150m shares is expected to be oversubscribed by about 97 to 100 times, according to Schroders Asia, which is managing the offer. The flotation is poised to raise HK$735m (US$95m) for the company, the hotel arm of the Kuok Group of Malaysia. Page 15

Euromoney to buy training arm

DC Gardner, the UK personnel training company, which has been substantially restructured in the last 18 months, has agreed to sell its training division to Euromoney Publications for £3.7m ($5.69m). Page 14

Market Statistics

Companies in this issue

BA and Virgin 'dirty tricks' row nears end

By Andrew Fisher in London

BRITISH AIRWAYS and Virgin Atlantic are moving towards a settlement of the "dirty tricks" dispute which has soured relations between the two airlines, but Virgin says BA still has to make a firm offer.

The impetus for the latest initiative to end the embarrassing public row between the UK companies has come from Mr Christopher Chataway, chairman of the UK Civil Aviation Authority.

If a deal is agreed, compensation would be paid by BA to Virgin.

This could, however, be less than the £9m ($14m) suggested earlier this year, though neither would comment on the likely final sum. In return, Virgin would drop its court proceedings for compensation and end threats of legal action in the US.

Virgin, which wants to expand its international services, said it had not heard from the CAA or BA about new terms to end the dispute. But it said Mr Chataway had made a useful approach, meeting Virgin several times. "He helpfully intervened to try and avoid the two sides ending up in court again."

BA, which also confirmed contacts with the CAA, said it was keen to bring the affair to a close. As well as dropping legal action, Virgin would also accept a "gentleman's agreement" not to exploit the details of the "dirty tricks" – which involved the poaching of Virgin customers by using the airline's computer data – for its own further publicity.

Virgin said that the original settlement proposed would have required Virgin and Mr Branson to refrain from making any statements, or using past evidence of BA's actions, to defend the company even if the matter was raised again or further such events occurred.

BA apologised publicly to Virgin in January for claiming that Mr Branson had made up the "dirty tricks" claims and paid £610,000 in libel damages, as well as high legal costs, after the revelations of the secret operations to lure away customers.

But talks on a final settlement foundered in March on the "gagging clause" issue, with BA seeking to get Virgin "to agree not to rake over the events of the past".

Lex, Page 12

Alan Friedman and Clive Cookson on a joining of European capital and US science

Hands-off approach to the creation of drugs

IF Art Levinson and his fellow scientists have their way at Genentech, the Californian biotechnology company, a range of futuristic drugs could find their way to market towards the end of this decade.

Dr Levinson, a man who sketches molecular structures on a blackboard as easily as most people sign their names, is the head of a research team of 320 cloners, cell biologists and other scientists.

Genentech's candidate drugs – including genetically engineered treatments for the Aids virus and breast cancer, and an almost science-fiction drug that could regenerate a cirrhosis-decayed liver – are being developed thanks to an unusual marriage of European capital and American science and technology.

The European partner is Roche, the Swiss drugs giant which three years ago paid $2.1bn to acquire 60 per cent of the 15-year-old Genentech. Roche has adopted a hands-off approach to Genentech's scientists. Mr Fritz Gerber, chairman of Roche, has pledged to maintain Genentech's autonomy, including independent control of its research agenda.

Of Roche's original investment, there remains a $650m cash balance at Genentech. The company has the leeway to spend more than 50 per cent of its annual revenues on research and development.

Genentech's pipeline of potential drugs probably now matches that of its Californian rival Amgen, the biotechnology industry's greatest success story so far.

Mr Levinson's scientists are encouraged to spend 20 per cent of their time on their own research – rather than strictly company business. A more typical proportion would be 10 per cent.

The 75-acre leafy park that serves as Genentech's headquarters on the bay in south San Francisco includes a recently opened $80m research centre and some of the best childcare facilities in the US.

But the academic atmosphere of the headquarters does not conceal the entrepreneurial energy of the workers. Mr Kirk Raab, the crusty 57-year-old Genentech chairman, is, by his own admission, crazy about making money.

"Every employee in this company is a shareholder. There is a passion here for stock options, for ownership. Our future is to make a lot of money and to do that by providing lots of new products," he says.

Kirk Raab, the crusty chairman, is crazy about making money

"One of the main reasons why we did the deal with Roche was to make sure that we could continue making R&D investments. Without Roche's money we would not have been able to."

Mr Raab bristles at the mere mention of the Swiss company's majority control, although he acknowledges that Genentech has been left to its own devices. Roche has the option to buy out the rest of Genentech's stock by mid-1995. "You don't see the Swiss flag flying out front," Mr Raab says.

"Roche has only two members of our 13-strong board. I only talk to their chairman twice a year. They have no rights to our products or our science. They allow us to function independently. They don't want us to be Roche's West Coast arm."

The view from Roche's US headquarters in New Jersey is subtly different. Dr Jürgen Drews, the research director, agrees that Genentech must maintain a separate identity, to avoid stifling its entrepreneurial spirit – but he emphasises the extent to which the two companies are working together.

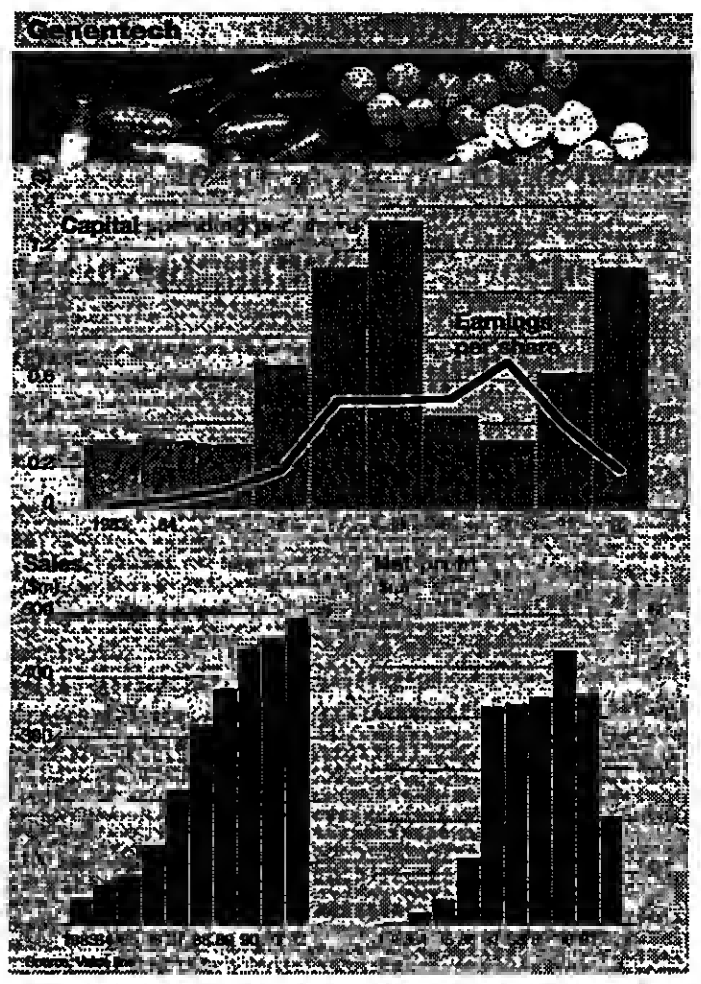
"We made it clear to Genentech that we wanted to collaborate with them but we didn't want to manipulate them," he says. "We've had to prove our abilities a couple of times but that has led to a relationship of trust."

Mr Raab, a former pharmaceuticals industry salesman, admits he is impatient at the time it takes for drugs to come to market. When they get there, the risks are far from over.

Activase, a heart attack drug that dissolves blood clots within seconds, represents about 35 per cent of Genentech's annual revenues of more than $500m. In 1991 an Oxford University study, Isis-3, called its effectiveness into question.

The study found that an older unpatented drug – streptokinase – saved as many lives as Activase, and at a tenth of its $2,000-per-dose cost. The study caused Activase's share of the US market in such clot-buster drugs to slump from nearly 70 per cent to 50 per cent.

Mr Raab fought back. He pushed for a $55m study, funded largely by Genentech, that would test Activase against streptokinase. The study, called Gusto, was completed on April 30. Mr David Molowa, a drugs analyst at Bear Stearns in New York, noted the high risk: "If it had gone against Activase, Genentech would be dead."



But Gusto showed that Activase had better results in preventing heart attack deaths than streptokinase. Although the difference was small – Activase saved about one extra life for every 100 patients treated – it was enough to boost Genentech's share price by $5¼ to $38 in less than a day. Mr Molowa reckons the annual Activase sales of $180m should soon rise to $250m.

Wall Street's analysts have begun to revise upwards their net profit forecasts for Genentech this year, which already projected a rise of more than 50 per cent to $32m, reversing a two-year decline.

Meanwhile Roche appears content to watch its investment and to acquire more shares – it now has 63 per cent. One of its Swiss competitors, Sandoz, is following in its footsteps. Last year Sandoz paid $392m for a 60 per cent stake in SyStemix, another Californian biotech company.

But other observers in the pharmaceuticals industry believe the Swiss approach will fail. One is Dr Richard Sykes, chief executive of UK-based Glaxo. His company has set up R&D partnerships on a limited scale with several US biotech companies, avoiding large equity investments which, he says, eventually "kill a company's spirit".

The scientific spirit is still very much alive in Mr Levinson's labs. But Roche would have to think carefully before making a full takeover.

Right to use Intel chips lost by AMD

By Louise Kehoe in San Francisco

A CALIFORNIA appeals court has dealt a serious blow to Advanced Micro Devices by overturning an arbitrator's decision that gave the semiconductor manufacturer the right to use Intel microprocessor technology.

The ruling stems from a bitter six-year legal battle between the two Silicon Valley chip makers. Intel, the world's largest semiconductor manufacturer, dominates the world market for microprocessors used in personal computers. AMD, once an Intel partner, now competes with Intel by selling its own versions of Intel's chips.

The court decision places a legal cloud over AMD's most profitable and promising products: its version of the Intel 386 microprocessor and its recently introduced 486 microprocessor.

AMD claims the right to Intel's technology under prior agreements between the two companies. Last year, after almost five years of hearings, an arbitrator ruled that Intel had breached its technology sharing agreements with AMD and awarded AMD the right to use Intel 386 technology.

In a decision released late on Friday, however, the appeals court ruled that the arbitrator had "exceeded his powers" in awarding technology rights to AMD.

AMD said it would immediately ask the appeals court to reconsider its decision and, if necessary, would take the matter to the California Supreme Court.

"This reversal will not deter AMD from continuing to compete in the 386 microprocessor market," said Mr Jerry Sanders, chairman and chief executive officer of AMD. "Despite this setback, competition will continue and we will support our customers." Intel will now seek damages of more than $1bn (£600m) from AMD.

Last month, in another related Intel-AMD dispute, a jury's verdict that AMD does not hold a licence to use Intel microcode was set aside by the judge because Intel withheld evidence.

Thus, although Intel has won an important ruling from the California appeals court, it still faces significant challenges to its intellectual property rights. The legal battles between Intel and AMD appear likely to drag on, perhaps for several more years and almost certainly beyond the lifetime of the products currently at issue.

World trade talks drink in the last chance saloon

Economics Notebook

By Peter Norman

WHAT are wa to make of world trade developments?

Last week's annual ministerial meeting of the Organisation for Economic Co-operation and Development ended with upbeat noises abont progress in the long stalled Uruguay Round of trade liberalisation talks.

But the talk in the corridors was more about managed trade and rising protectionist pressures.

The reasons were not hard to find. Over the past three years unemployment in the world's 24 leading industrial economies has exceeded its 1983 record level of 30m and is projected to increase to nearly 36m hy the end of this year. Nor do these figures tell the whole story of wasted labour resources.

As the OECD noted last week in a special report on unemployment, many workers have withdrawn from the job market because they consider it futile to look for jobs or because they have generous income support. Many people are doing part-time work and there are many low-wage jobs being held by people overqualified for them.

At the same time, competition among industrial countries and from the newly industrialising economies of Asia and the recently rehabilitated countries of Latin America has become remorseless.

Little wonder the European Commission wants Japan to revise an agreement signed only in April and cut still further its exports of cars and vans to the European Community. Or that in even such a bastion of free trade as the OECD itself, people are beginning to think aloud abont whether protection might not he a lesser evil than social unrest caused by mass unemployment.

Just before the OECD meeting, Mr Jean-Claude Paye, the organisation's secretary general, told the German newspaper *Die Zeit* he would "not rule out protectionism as a policy of last resort". Ha readily acknowledged protectionism was stupid and the worst solution to the problem caused by the loss of jobs to the newly industrialising countries. But he said if other policies did not work governments would not be able to avoid "stepping on the brakes a little". It would be better, he said, to do "stupid things, fully realising that they are stupid, than to accept a social explosion".

But while Mr Paye has been developing his vision of apocalypse now, officials from the OECD's memhar countries have actually begum preparing the trade agenda to follow tha present Uruguay Round.

The world has moved on since the countries of the General Agreement on Tariffs and Trade launched the Uruguay Round in 1986. The environment has become a preoccupation in most industrialised countries with the result that environmental policies have begun to impinge on trade. The globalisation of husiness through trade and investment has meant that a country's competitiva conditions and domestic competition policies can affect trade and the access companies have to markets.

The Netherlands provides a good example of how environmental concerns and trade can conflict. By tradition and history it is one of the world's free tradars. Yet the government has proposed to ban imports of tropical timber taken from forests where there is no scheme for replanting.

Elsewhere, measures to restrict imports have been urged or introduced after protests hy environmentalists who want action against such perceived abuses as the clubbing of baby seals or experimenting on animals to produce cosmetics and pharmaceuticals.

Globalisation has made the dividing line between trade and competition policies increasingly fuzzy. Trade barriers may fall between countries only for companies to find their activities constrained hy suhsidies to competitors or rules on standards or local content. Government rules on zoning, licensing or pricing can keep new competitors out of distribution systems.

Some actions by the private sector can also lead to trade discrimination. The OECD is also concerned that international agreements between companies may result in managed trade.

At a less sophisticated level, violence, intimidation and harassment have been used to hlock competition. In South Korea, for example, there have been cases of cinemas showing locally-made films releasing snakes in rival cinemas showing foreign-made films in an attempt to prevent foreign film makers from increasing their market share.

Issues such as these are as good a *justification* as any for the OECD, where officials from its member countries who are steeped in the differing cultures of trade, environment and competition policy can meet and begin to understand each others' problems.

Achieving better communications is half the battle. Trade officials recall thet when the Montreal Protocol phasing out production of chemicals that damage the ozone layer was agreed in 1987, it had been negotiated hy environmental officials and was "totally Inconsistent" with Gatt rules.

This galvanised governments into action with the result the OECD was last week ahle to produce some procedural guidelines on how to improve the relationship between trade and environmental policies.

But this small step can only partially offset the force of protectionist pressures bearing down on – and in some cases being encouraged by – policy makers.

Mr Michael Wilson, the Canadian trade minister, won support when ha warned against any move to add the emerging trade agenda to the unfinished business of the Uruguay Round. This would make the already difficult task of completing the round daunting, he said.

The Uruguay Round therefore remains the ultimate test of the industrialised countries' commitment to the multilateral trading system that has served them well since the second world war.

The round is in the last chance saloon. After so many missed deadlines, negotiators risk losing all credibility if they miss the latest target date of December 15. But for all the talk of progress and momentum at last week's OECD meeting, it is too early to bet on a successful outcome against a background of slow growth and rising unemployment in the industrialised world.

Head of US arm of O&Y threatens to resign

By Nikki Tait in New York

THE battle over control of the US subsidiary of Olympia & York, the Canadian property company, has intensified following a threat by Mr John Zuccotti, head of the US operation, to resign unless the subsidiary gets an "independent" board and corporate governance issues are clarified.

In an affidavit filed with the US bankruptcy court, Mr Zuccotti said that "without thet clarity, I cannot function as a chief execntive officer and exercise my fiduciary responsibilities to all the creditors and the equity [holders]."

"Nor," he continued, "do I believe that anyone else can".

Mr Znccotti added that the current situation made it impossible to continue negotiating with creditors to restructure the US subsidiary's deht.

Mr Zuccotti's declaration turns up the heat in a rumhling dispute between administrators of the distressed Canadian parent company's assets, and creditors of the US subsidiary, which has so far avoided bankruptcy. These creditors are a mixture of US and foreign banks, who have $5.3bn of loans outstanding to O&Y USA.

Coopers & Lybrand was appointed to act as administrator of the assets of the Toronto-based property colossus, Olympia & York Developments, which includa a majority stake in the US subsidiary.

Since then, Coopers has been seeking the right to hire and fire members of a governing board, which is to advise Mr Znecotti on the running of O&Y USA.

Gardner to sell training division for nearly £4m

By Angus Foster

DC GARDNER has agreed to sell its banking and management training division in order to cut costs and concentrate on its outplacement and conference businesses.

The company, which has been substantially restructured in the last 18 months, has agreed to the disposal of its training division to Euromoney Publications for £3.7m, which includes £1.8m of inter-group debt.

As a conditioo of the sale, the division will retain the DC Gardner name. The company will seek shareholder approval to change its name to Coutts Consulting Group, derived from the name of its personnel business.

The company has also agreed to terminate a long term lease on a property in London's Docklands where the training division was based. Although the termination will cost £5m, it will lead to longer term cost savings.

Mr Stephen Johnson, chief executive, said these were designed to be the company's last set of changes. Last November the company issued a profits warning, replaced its chief executive of less than a year, Mr Barry Topple, and appointed Sir Kit McMahon, former chairman of Midland Bank, as non-executive chairman.

Mr Johnson said the changes would save nearly £1m a year in reduced costs. "We will have the cash to devote to the other businesses," he said.

The training division, which employs nearly 70 people, has been affected by recession and made a pre-tax loss last year. At the operating level, the company returned to profits. At December 31, the division's net assets totalled some £890,000.

Gardner will use the proceeds of the sale towards the termination costs on the Docklands property. The balance of the costs will be provided from new loan facilities.

Mr Johnson said gearing, which stood at 30 per cent in December, would not go beyond 100 per cent this year and would fall below 70 per cent by the year end.

The company also intends to seek approval from shareholders and the courts to reduce its share premium account. Once the company has restored distributable reserves, it intends to pay the arrears of £480,000 on its convertible preference shares. Ordinary dividends would follow, depending on earnings and cash resources.

Smith creditors to meet

By Peggy Hollinger and Catherine Milton

CREDITORS of Mr Clive Smith, the 1980s oil entrepreneur who will today seek to avoid bankruptcy, are expected to raise questions over the statement of his affairs showing assets of £1.7m and debt claims of more than £30m.

The statement of affairs provides scanty information. In it, Mr Smith proposes to repay creditors, who will vote in proportion to their debt, by realising interests, including property, an outstanding debt, and contributions from his income as a financial consultant over the next three years.

The two companies in which he has been most active according to associates are Alpine (Double Glazing), which ceased trading last month, and Cellular Telecom, the mobile communications group. The companies have some directors in common and have shared office space and trading links.

Cellular Telecom retails airtime on the Vodafone and Cellnet networks. It signs up subscribers, bills them for equipment and airtime use, and then pays the networks.

"Being a service provider is being a bank," said Vodafone. CT – one of three UK companies seeking to act as a service provider on Vodafone's new Greek cellular network.

Mr Smith's connection to CT dates back to 1990, when it was sold to the then publicly-quoted Image Store Holdings, as part of a reverse takeover.

The vendors of CT, whose directors included Sir David McNee, the former commissioner of the Metropolitan Police, were Mr Smith's two daughters, Mr Robert Pollock, a CT director, and Mr Edward Clucas, a financial adviser to Mr Smith. The financial adviser to the deal was Corporate Broking Services, a London stockbroker which went into liquidation in 1991 and in which Mr Smith held a substantial stake.

At the time, the prospectus stated that neither Mr Smith nor trustees of his daughters' trusts would seek board representation.

He has, however, retained an active role throughout and was at the company's Maidenhead offices last week in meetings with CT directors including Mr Pollock and Mr James Berry. Both men are also on the board of Alpine (Double Glazing), the windows company, which ceased trading at the end of May. Mr Smith personally guaranteed the purchase of Alpine from administrators in February 1992.

Mr Pollock yesterday refused to comment on Mr Smith's precise link with Cellular Telecom. Mr Pollock, a discharged bankrupt, secured his £500,000 mortgage from the Bermuda-based Bank of Butterfield by a guarantee from Finchley Investments, an Isle of Man company which Mr Smith has often used to handle some of his investments.

Finchley put up 500,000 shares in Western & Pacific, a North American natural resources company as collateral for the loan. Western & Pacific is also partly owned by Newsham Investment, another vehicle for the Smith family interests.

Finchley Investments' name came up last year in connection with a financing deal for Belling, the cooker manufacturer which subsequently went into receivership. Belling had tried to arrange a $50m capital injection through Global Prospect Funding. It agreed to pay Global £2.1m, borrowed from the pension fund, before the deal as the first year's interest. When the $50m loan was not forthcoming, Finchley Investments put up Western & Pacific shares as Belling's security for the interest payment.

It is not clear what Mr Smith's current offshore interests are. They are not mentioned specifically in the statement of his affairs supplied to creditors for today's meeting.

Mr Smith's creditors include the Inland Revenue and Société Bancaire de Paris. The largest creditor by far, however, is Richard Pearce and Son, a Hong Kong registered company with the same Irish address as Mr Kelvin Myles, who managed many of Mr Smith's offshore interests.

Some creditors have been unable to secure satisfactory answers to questions over Mr Smith's affairs when they approached Mr Graham Wilson, the insolvency practitioner who called today's meeting on Mr Smith's behalf.

Mr Wilson, who has also called a creditors' meeting for Alpine (Double Glazing) later this month, was arrested last year on suspicion of defrauding creditors in an insolvency procedure and is on police bail awaiting possible charges. The DTI is believed to be taking an interest in his affairs.

At the meeting in Southall this afternoon, creditors will vote on Mr Smith's proposals for an individual voluntary arrangement. Mr Smith is offering to repay 8.13p in the pound if creditors accept his proposals, against 0.1p in bankruptcy.

Colin Beere

Graham Wilson, Mr Smith's insolvency practitioner

Hawtal Whiting losses at £2m

LOSSES at Hawtal Whiting, which provides design and engineering services to the motor industry, continued to mount in the second six months and for the full 1992 year reached £2.18m pre-tax.

The deficit, which compared with previous profits of £197,000, was struck after taking account of exceptional provisions amounting to £1.5m.

Provision made against amounts owed by Leyland-Daf, which went into receivership in February, was £805,000.

Balance of the overall provision was made up as £333,000 for other identified doubtful debts and £365,000 for restructuring, including redundancies and facility rationalisations.

Turnover for the year slipped to £56.4m (£62.4m). Pre-exceptionals, the group made an operating profit of £513,000 (£1.74m) after taking account of a first half loss of £368,000.

Losses per share worked through at 39.6p (0.9p). The dividend for the year is being passed – last time a nominal 0.1p was paid.

The directors said that a deterioration in shareholders' funds to £3.6m against £6.37m, brought about by poor trading conditions in 1992, together with the failure of Leyland-Daf, would result in the company breaching the existing borrowing powers laid down in its articles of association when the audited accounts for the year were published.

Shareholders will be asked to consider a resolution to authorise a temporary increase in Hawtal's borrowing powers.

The directors pointed out that the group was not in breach of any loan or facility covenants and continued to have the support of its banks.

Net debt at year-end had risen to £14.1m (£10.22m).

Alpine may have already been sold, bidders told

ALPINE (Double Glazing) may already have been sold according to parties who have tried to make offers for one of the oldest names in the UK double glazing industry.

Creditors are not due to meet until June 15, to vote on whether to liquidate the company. The meeting was called on the order of directors on May 28.

Some hidders have been told the assets and husiness of Alpine have already been sold. However, calls remain unanswered from Mr Graham Wilson, the Insolvency practitioner who has arranged the creditors meeting to discuss liquidation, and who is also representing Mr Clive Smith in his bid to avoid bankruptcy today.

It also emerged yesterday that almost three weeks before Alpine stopped trading regional sales directors were verbally instructed to send all customer payments by special delivery to the company's head office in London, and not deposit them in the local banks as previously.

In a memo dated May 11 sales staff were told to have customers make cheques payahle to Alpine (Double Glazing), "omitting the Co Ltd".

Carr's Milling exceeds £600,000

FIRST-HALF profits from Carr's Milling Industries outstripped the whole of the previous year. Although there will be a slowdown in the second period, the directors said the figure should comfortably exceed that of 1991-92.

In the six months ended February 27 1993 sales slipped £138,000 to almost £35m, hut pre-tax profit surged from £125,000 to £610,000. The second term of last year produced £152,000. Adjustment has been made for sales of the discontinued egg activities.

The agriculture side increased sales and profits significantly with all sectors trading ahead of last year.

Flour milling started well with price increases offsetting rising costs. But effective devaluation of sterling and the CAP agrimonetary system had a detrimental impact on raw material prices and will continue so in the second half.

Intense competition on prices in the bread baking industry continued, although cost cutting helped mitigate the effect. The engineering and restaurant businesses produced satisfactory results.

Earnings per share came to 6.1p (1.2p), while the interim dividend is unchanged at 1p.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
British Telecom (UK)	MCI (US)	Telecoms	£2.8bn	Giant global step
Raytheon (US)	Corporate Jets (UK)	Aircraft manufacture	£250m	BAe continues restructuring
Rhone-Poulenc Rorer (France/US)	Applied Immune Sciences (US)	Healthcare	£73m	Initial 37% stake
Jardine (Hong Kong)	Cycle & Carriage Co (Singapore)	Distribution	£64m	Stake nears 25% level
Quantum Fund (Dutch Antilles)	British Land (UK)	Property	£33.7m	Stake part of Soros package
EG&G (US)	Wallac (Finland)	Biotechnology	£27m	Procordia non-core disposal
Desimpel (Belgium]	Tilmanstone Brickworks (UK)	Building materials	£10m	Completes MMC-driven sales
Powell Duffryn (UK)	Savenhoj International (Denmark)	Engineering	£7.5m	Expanding marine division
Group 4 (UK)	TNT Security (Australia)	Security	n/a	Also buying New Zealand arm
Schmalbach-Lubeca (Germany)	Impetus (France)	Packaging	n/a	CMB non-core disposal

COMPANIES AND FINANCE

Salomon optimistic about recovering lost £6.7m

By Tracy Corrigan

THE London operation of Salomon Brothers, the US investment bank, is trying to recover £6.7m ($10.3m) lost through what it says was a fraud perpetrated in the back office of its gilt-edged market-making unit.

Salomon said that although the money had not yet been traced, tha firm was optimistic about the prospects of recovering it.

The management of the firm does not expect the alleged fraud to have any effect on its earnings and says thet no clients have suffered any loss.

The sum is believed to have been removed from the company's account in a single transfer last month.

The alleged fraud was discovered by Salomon and reported to the London Metropolitan Police, the Securities and Futures Autho ..y and the Bank of England.

On May 27, e 27-year old man was arrested at his homa in south London and hailed to return to London's Rochester Row police station on July 7.

A second man, aged 32, arrested a few days later at an address in Buckingham Palace Road, will also appear et the police station on July 7.

At that stage, the men will either be charged, released on *further bail*, or told that no further action will be taken.

The police declined to comment further on the progress of the investigation. Salomon said it had issued a writ against an individual.

Because fraud is a criminal offence, the Bank of England and the SFA are not likely to take an ective role in the case.

The SFA said that it would only take action if any of its registered members were convicted, unless the case had wider implications on the way a firm is run.

"If the firm was lax in its compliance and through that laxity endangered cliants money, [we would taka action], even if no other persons were party to the alleged fraud," the SFA said.

The Bank of England, which is the supervisor of the gilts unit, would he "kept fully informed," it said.

If the alleged fraud is an isolated incident in the back office, discovered and reported by Salomon, the firm is likely to be ahle to avoid any further fall-out from the case.

Nevertheless, the episode is something of an emharrassment to Salomon, which has been ettempting to project a "clean" image following a damaging scandal in 1991, when it was discovered that the firm had rigged US Treasury market auctions.

Senior executives including Mr John Gutfreund, former chairman, had failed to inform the enthorities immediately of the transgressions.

New Torras managers say group made losses

By Peter Bruce in Madrid

GRUPO TORRAS, the Spanish industrial holding company owned by the Kuwait Investment Office (KIO), ran up total losses of Pta197bn ($1.7bn) in 1991 and 1992, according to accounts filed with the Spanish securities commission by the new Torras management.

The figures vary widely from the small Pta3bn profit reported by the former Torras management for 1991, and reflect the conviction held by the new management of the KIO, which took control of Torras mid-way through last year, that their predecessors mismanaged the Spanish companies.

Torras, which is in receivership, said Pta44.4bn had been lost in 1991 and Pta153.1bn last year. The 1992 figure includes, according to Torras, Pta55bn in bad debt provisions for loans which it claims were made to companies directly or indirectly controlled by former Torras managers.

The figures appear to include large portfolio losses on companies controlled by Torras. Torras said that of the Pta500bn invested in Spain by the KIO, only Pta73.3bn remained. It blamed the former management.

In the past, the old management has claimed that the value of KIO's investment only began to fall once the new management decided to cease supporting Torras companies and to pull out of Spain.

The publication of the figures by Torras comes shortly after a court agreed to freeze KIO assets in two bank accounts in Switzerland after a Torras creditor claimed it had not been paid for assets sold to Torras when it was under its former management.

In London, the KIO management insists it is merely a shareholder in Torras, and not liable for its debts. The accounts presented to the Spanish authorities claim Torras owes the KIO nearly Pta180bn. Peat Marwick, KIO's auditors, have advised the Kuwaitis to treat this debt as equity.

MAS hits financial turbulence

Malaysian carrier's latest results are seen as dismal, says Kieran Cooke

SOMETHING seems to be going wrong in the cockpit at Malaysian Airline System (MAS).

In recent years, the carrier has gained a reputation as one of the world's more ambitious airlines. At a time when many airlines are pruning services and rescheduling aircraft deliveries, MAS is in the middle of a full throttle expansion programme.

New routes have haen opened and capacity has been expanded. In the course of its present five-year plan to 1996-97, MAS has orders for 72 aircraft costing a total of M$10.6bn ($4.13bn).

However, the airline's latest results – for the year ended March and released at the weekend – suggest thet MAS has flown into some nasty financial turbulence.

Pre-tax profit was M$157m, up 32 per cent on 1991-92. But the result is well under half the M$372m pre-tax return forecast by MAS at the end of last year when the airline raised $700m via Malaysia's biggest rights issue.

The year'a profit includes e M$337.1m profit from tha sale of two Boeing 737-200s and five McDonnell Douglas DC10-30s. If these are stripped out, MAS falls into e pre-tax loss of M$180m.

All the aircraft involved in tha sale were disposed of on a lease-back basis: MAS has to pay substantial amounts in lease payments to continue operating the aircraft.

"The sale of the aircraft might have brought the figures into the black," said one analyst. "But there's no getting away from it – these are dismal results."

Mr Zain Azraai, MAS chairman, said there had been a sharp drop in passenger and cargo traffic dne to the continuing recession in tha main industrialised countriss. Intense competition and overcapacity on many international routes had affected performance.


MAS's extensive domestic network is e continuing drain on funds

With ebout 55 per cent of MAS's revenue denominated in foreign currencies, Mr Zain said the appreciation of the ringgit, the Malaysian dollar, had caused problems.

Two fires at Kuala Lumpur, International Airport, one of which caused flight disruptions for nearly a month, had edded to the woes of MAS.

Analysts say MAS has expanded capacity too fast: the carrier's overall load factor – seen as an important performance indicator in the aviation industry – has dropped to 62.9 per cent from the 65.9 per cent of 1991-92.

MAS is more than 50 per cent controlled hy the Malaysian government. Observers say that some recently opened international routes – to Mexico City and Johannesburg, for example – are more a reflection of the government's wish to project the country on the world stage than straightforward airline economics.

MAS's extensive domestic network is a continuing drain on funds. The airline says it is mystified by a recent sharp drop in domestic passenger growth – down to 3.7 per cent in the second half of 1992-93 from 18 per cent in the first half. Domestic fare increases of between 15 per cent and 20 per cent during the year could be one factor behind the sudden drop in internal passenger traffic.

The decline in passenger growth could also reflect a general slowing down in Malaysia's economy, which has been growing et a rate of more than 8 per cent in eacb of tbe past five years.

Dr Mahathir Mohamad, Malaysia's prime minister, recently proposed setting up a second airline, mainly to handle domestic routes. Prospective operators are likely to be cautious in light of these MAS results.

MAS says it is examining ways to slow planned additions to capacity, including deferring delivery of some new aircraft and early termination of some aircraft leases.

There are rumours that the airline will he forced into anotber cash call, probably next year. MAS remains locked into an expansion programme which will see its fleet increase from the present 80 aircraft to more than 100 in the next four years. Leased and ageing aircraft are being phased out to form what will be one of the world's most modern fleets.

In 1992-93, MAS took delivery of 21 aircraft. In 1993-94 a further 28 airliners are scheduled to join the MAS fleet.

"Financing this expansion is a tremendous strain on MAS," said an analyst. "The next two years are going to be critical – finance costs will be peaking and it is vital that operating performance is improved. Proper utilisation of capacity is the main factor."

MAS defends its expansion as part of e long-term strategy. It says that in the years ahead the benefits will flow through, particularly as regional passenger traffic expands.

Most other airlines are facing financial problems. But MAS's high-flying ambitions have received a bad jolt. Financial seat helts are likely to remain firmly fastened for some time to come.

Canada Post acquisition

By Robert Gibbens in Montreal

CANADA POST, a federal crown corporation, has moved aggressively into the private sector, buying 75 per cent of Purolator Courier for C$55m (US$43.3m) to become Canada's biggest courier operator.

It prevents CP from being a carrier of last resort and allows it to compete against US courier companies.

Control of Purolator was sold by Onex, a Toronto holding company, and a big Ontario pension fund.

In the first quarter Purolator became profitable for the first time in four years.

Other courier companies have complained CP will have more than 50 per cent of the market for overnight letter and small parcel delivery, estimated to be worth between C$1.5bn and C$2bn annually, and will be in a position to control pricing. But the federal government said the alternative was the sale of Purolator to a US company.

Heavy demand seen for Shangri-la float

SHANGRI-LA Asia's flotation of 150m shares is expected to be oversubscribed by about 97 to 100 times, according to Schroders Asia, which is managing the offer, Reuter reports from Hong Kong.

Schroders Asia says that the flotation appears to have drawn more than HK$70bn (US$9bn) out of Hong Kong's money markets.

The flotation is poised to raise HK$735m for the company, the hotel arm of the Kuok Group of Malaysia. Trading in the shares is expected to begin on June 17.

In February, a flotation by Denway Investments, whose main asset is a stake in a south China car factory, attracted HK$240bn in applications – equivalent to more than one-third of Hong Kong's annual gross domestic product – when it was oversubscribed a record 658 times.

That issue prompted the colony's monetary authority to study ways to avoid strains on the banking system. Mr Joseph Yam, head of the authority, said banks had followed guidelines to curb borrowing for the Shangri-la issue.

The Kuok Group will hold 59 per cent of Shangri-la after the listing, and Beijing-controlled China Resources (Holdings) 8 per cent. Shangri-la holds hotels in Hong Kong and China, and commercial, residential and office complexes on the mainland.

● The Hong Kong stock exchange said Chinese and Hong Kong securities authorities will sign a memorandum of regulatory co-operation in Beijing on June 19, Reuter adds. It paves the way for nine Chinese companies to list shares in the colony within the month.

Signatories will include the stock exchanges of Hong Kong, Shanghai and Shenzhen as well as China's Securities Regulatory Commission and Hong Kong's Securities and Futures Commission.

Spanish utilities agree energy collaboration

EMPRESA Nacional de Electricidad and Iberdrola, two Spanish electricity ntilities, have reached agreement to collaborate, involving steps to reduce the costs of their debts in the nuclear sector, Reuter reports from Madrid.

"The two chairmen have agreed to take measures to guarantee financial stability in the sector," a statement said.

It said the agreement involved proposals to reduce the nuclear debt burden and to study exchanges of assets to rationalise the energy market. The two companies also agreed to collaborate in nuclear power management, research and development, primary energy and marketing.

Mr Inigo de Oriola, Iberdrola chairman, said last week the two companies had agreed to transfer their nuclear assets to a new company.

The government imposed a moratorium on new nuclear construction in 1984, leaving companies with large debts and unfinished projects. Under the proposal, the transfer of nuclear assets to a new company would reduce their financial costs considerably.

He said Iberdrola's financial debt could be reduced hy Pta530hu ($4.7bn) from the present Pta1,700bn as a result.

UK GILTS

Market unmoved during Clarke's first week

MR KENNETH Clarke's first week as chancellor of the exchequer contained little to move the UK government bond market. But expectations for an eventual – if not early – cut in interest rates continued to underpin prices at the short end of the yield curve.

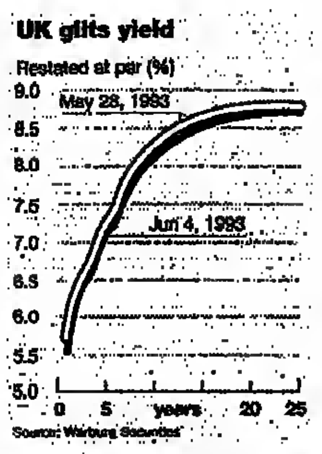
A strong view in the market is that there will be no easing of monetary policy until Mr Clarke has mastered his brief and won the respect of the foreign exchange markets. He is also likely to wait for more bad news on the economy before acting.

While it is apparent that the pace of economic recovery has slackened since the beginning of the year, evidence that the recovery is faltering is not yet overwhelming.

Possibly because of this sentiment, last week's release of poor narrow money supply figures for May caused only a frisson in the market.

Narrow money – mainly notes and coins in circulation – rose by a seasonally adjusted 3.3 per cent in the year to May, compared with growth of 4.8 per cent in the year to April. Such a sharp drop in the year-on-year rate, even allowing for special factors, pointed to a slowdown in consumer spending and prompted speculation of another rate cut. But while the foreign exchanges took fright and the pound fell to below DM2.47, yields at the short end of the curve fell only 4 basis points.

Although the narrow money figure was bad, it was not enough to convince some analysts. Many said it was too early to judge the full extent of the slowdown in the rate of growth of M0. The figure was probably distorted downwards by the timing of the Whitsun bank holiday. In addition, the latest figure for notes in circulation – which forms 95 per cent of M0 – painted a more buoyant picture of monetary growth in the first week of June.



The figures, published on Thursday, showed that the increase in notes in circulation in the year to last Wednesday had rebounded to 6.8 per cent. This figure was not seasonally adjusted, and was inflated by the bank holiday two days earlier.

However, Mr Peter Spencer, chief economist at Kleinwort Benson, argues that allowance for the distortion can be made by looking at the year-on-year growth in the latest four week moving average.

"This calculation shows the growth rate moving up to 4.5 per cent from 3.3 per cent the previous week, suggesting that the May M0 figure will prove to be an anomaly," he says.

The long end of the yield curve continued to prevaricate over inflation last week. There has been little movement recently, with the market stuck between two opposing camps on the future path of UK inflation.

A number of analysts are optimistic about inflation, and believe it is unlikely to take off again, mainly because labour market reform and competition from the rest of the world will hold down wage inflation.

Mr Ian Shepherdson, UK economist at Midland Global Markets – which has an optimistic view on inflation – believes it will take a few more good earnings figures to convince the market that inflation is no longer a problem.

"When that happens there will be a bull-run on long-dated gilts," he says. "There will come a point where, with both the RPI and the RPI excluding mortgage interest payments well under control, long yields of 8.6 per cent will look crazy and will have to come down."

Opposing this view are those who think a sharp pick-up in inflation is likely in the autumn.

Mr Chris Dillow at Nomura Research believes the RPI excluding mortgage interest payments will have breached the government's 4 per cent target ceiling by the end of the year.

Inflation will be driven upwards as price falls of last year start to drop out of the annual comparison, he says. This will be most evident in three areas; seasonal food, clothing and footwear, and cars, says Mr Dillow.

"From a starting point of 3 per cent this means thet inflation will reach the top of its target range even before we consider actual price increases," he adds.

Both camps have their advocates, but with few economic statistics due over the next few days, this week is unlikely to provide extra clues to tip the balance either one way or the other.

Emma Tucker

JAPANESE BONDS

Lean times as investors discount the recovery

THE Japanese bond market has been going through a lean time as investors begin to discount economic recovery.

Compared with a low of 3.8 per cent in February, the yield on the No 145 10-year benchmark has been forced up by positive economic data to around 4.6 per cent in recent weeks.

The rise in the Tokyo stock market this year, partly due to the government's price support operation, has undermined hopes of further monetary easing by the Bank of Japan.

The Nikkei index of leading share prices rose 24 per cent over the first four months of this year, prompting a shift of funds from the bond market to stocks.

Inflationary figures in the US, accompanied by a rise in Treasury bond yields, exacerbated jitters among investors. The ascent in the long-term bond yield triggered a rise in the five-year debenture yield, leading to a jump in the long-term prime rate, the leading benchmark for long-term lending, by 30 basis points to 5.4 per cent earlier this month.

Investor doubts were reflected in volume levels. Bond turnover in May was Y29,296.7bn, a fall of 26 per cent from the previous month.

However, with the overall wholesale price index for April falling 2.8 per cent after a 2.3 per cent fall in March, and the Nikkei's domestic commodity index down 16 per cent from last summer, worries over inflation are almost non-existent.

Optimism over an imminent economic recovery, helped by a return of money supply growth and some consumption indicators, may have been overdone.

Bank lending for April rose by a marginal 1.1 per cent from the previous year, the smallest gain ever, and industrial output for April fell 2.2 per cent from the month before, after two consecutive months of strong gains. Housing starts showed signs of topping out, rising a mere 1.1 per cent from a year earlier in April.

Stories of middle-managers at large Japanese companies being discreetly ousted from their posts in leading business magazines suggest that a revival in consumer sentiment could still be far away.

Poor news for the Japanese economy is good news for interest rates. Euroyen futures market last week saw a jump in activity, with the September three month contract closing the week at 96.79 from 96.66 at the start of the week.

Meanwhile, the bond market still faces an over-supply problem as investors are bracing themselves for a new supply of government bonds and corporate issues.

Corporate bonds issued last month rose to Y195bn, up sharply from Y11bn in April. More companies are expected to dip into the corporate bond market this month due to the rise in long-term bank lending rates, and according to the Bond Underwriters Association of Japan, at least Y400bn of domestic straight bonds are expected to be issued.

Investors are willing to buy short-term issues, as seen in the Tokyo Electric Power's Y150bn three-year issue, the largest to be floated in the domestic bond market. However, many remain wary of long-term bonds after the recent plunge.

The fall in yields may be limited due to investors wanting to take profits on positions taken earlier in the year, with a floor around the 4.5 per cent level. But with renewed speculation of a cut in the official discount rate, and the rise in the yen against the dollar, yields may have more room to fall.

Mr Marshall Gittler, bond market analyst at Merrill Lynch in Tokyo, expects the yield on the No 145 benchmark to fall to 4 per cent during the third quarter of this year.

Emiko Terazono

US MONEY AND CREDIT

Little wiser after a wealth of data

A WEALTH of economic data last week left the US bond market little wiser about the strength of the domestic recovery and the direction of interest rates.

For most of the abbreviated four-day week, the bond market gazed anxiously at the impending May jobs figures, due to be released on Friday morning. Along the way, it took just a little heart from the personal income data and the latest purchasing managers' report. Both sets of statistics were unveiled on Tuesday and reinforced the notion that the economy is growing at a sluggish pace. The yield on the benchmark 30-year long bond, which had ended the previous week at 6.98 per cent, slipped to 6.86 per cent by Thursday.

This relaxed mood proved to be shortlived. On Friday morning, the US Labor Department announced that non-farm payrolls jumped by 209,000 last month, following a revised 216,000 increase in April. Meanwhile, the unemployment rate fell to 6.9 per cent during the month, from 7 per cent previously. Both sets of figures were significantly stronger than analysts had predicted: the consensus had been for a 155,000 increase in May non-farm payrolls and a static unemployment rate. This, moreover, was the first time in 18 months that the latter figure had fallen below the 7 per cent mark.

Admittedly, closer inspection of the figures suggested that the picture might not be quite as bright as the overall numbers suggested. For example, the manufacturing sector continued to post a decline in job numbers – a trend which has lasted for three months. A large part of the increase came in the construction sector, and was probably due to the better weather. Health services and local government expanded employment.

Still, the bond market was not inclined to view the figures in the most favourable light. Bond prices gave up all the ground they had gained earlier in the week – and then a little more. By the end of trading on Friday, the long bond yield had risen to 6.91 per cent.

However, the real testing points for the market will come next Friday, when the May producer price figures are released, and then again on the following Tuesday, when consumer price data for the same month are released.

In light of the unexpectedly strong labour market trends, some economists believe that if these numbers show any hint of inflationary pressure, movement on the interest rate front is inevitable. As one pundit commented on Friday: "The Federal Reserve is just one bad inflation report away from a tightening." A bad report, runs the market consensus, would be anything that showed any significant rise in the producer price index.

Many analysts are predicting that the non-core index (that is, inclusive of food and energy prices) will be unchanged, while the core index might rise by 0.2 per cent.

For the consumer price index, expectations centre on a 0.2 per cent advance last month, and possibly a shade higher once the food and energy components are excluded.

The more optimistic analysts believe that there are good grounds for expecting the data will meet these targets: they point out that food prices stabilised last month, and energy quotes were generally softer.

The inflation figures next Friday will be accompanied by the latest retail sales report. Most of the big retailers – publishing their individual store sales reports – have indicated that May produced better business than the preceding months, although this was partly attributed to the improved weather conditions and the results were scarcely brilliant.

So most economists are predicting an uptick in the overall retail sales numbers, anything from a 0.6 per cent – 1.0 per cent increase.

Nikki Tait

FT/ISMA INTERNATIONAL BOND SERVICE

	Issued	Bid price	Chg on week	Yield
Sears Euro Trust 8⅛ 96	750	106¼		5.55
Sears o/s Fin Zero 0 98	500	71⅛	+⅛	6.90
Sears Roebuck Euro 9¾ 95	500	108⅛	-⅛	5.06
Skandinaviska Ensk 7⅝ 97	500	103⅝	-¼	6.39
SNCF 9½ 98	150	115⅞		5.82
Spain 6½ 99	1500	102¼	+⅛	6.05
SWISS FRANC STRAIGHTS				
Asian Dev Bank 6 10	100	105¼	-¼	5.48
Council Europe 4¾ 98	250	100⅝		4.59
EIB 6¼ 04	300	110⅞		5.51
Elec de France 7¼ 06	100	113	+½	5.78
Finland 7¼ 99	500	110¼	+½	5.30
General Motors 7½ 95	100	103		5.72
Hyundai Motor Fin 8½ 97	100	106		6.82
Iceland 7⅞ 00	100	111		5.70
Kobe 6⅜ 01	240	105	-⅛	5.15
New Zealand 4⅞ 99	200	100	+⅛	4.87
Ontario 6¼ 03	400	105⅞	+⅛	5.32

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units. FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn=Current coupon. CONVERTIBLE BONDS: US dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price. WARRANTS: Equity warrant premium over current share price. Bond warrant ex-yield at current warrant price.

Closing prices on June 4

INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BONDS

Cemex issue paves way for Latin American groups

WHEN Cementos Mexicanos, Mexico's large cement company, issued $1bn of bonds in the Euromarket last month, several records were set.

Cemex became the first fully Latin American company to offer $1bn of bonds in a single bite, and the first to obtain investment grade status for its bonds from a rating agency, albeit from the relatively low-profile Duff & Phelps.

The transaction, which was priced at 370 basis points over the comparable US Treasury yield and met heavy demand, represents a new acceptance of Latin American companies in international markets and paves the way for more issues.

Last week, the Chilean company Celulosa Arauco y Constitucion issued Mexico's first straight bond, for $150m, at just 210 basis points over US Treasury – the tightest yield spread to date for a Latin American company.

Both these deals raised the question of the risk of buying foreign-currency bonds from Latin American companies that in the past have suffered from steep currency devaluations. While Latin American names are broadly viewed as improving credits, there is a danger that the tightening of spreads and the supply of paper could run ahead of their growing credit strength.

Both Moody's and Standard & Poor's, the two main US rating agencies, continue to grade Mexican foreign currency sovereign bonds as speculative (unlike Chilean bonds). Under rating agencies' rules, the grade on a country's sovereign bond acts as an effective ceiling for that of its corporate bonds.

Since Duff & Phelps had given Mexican sovereign bonds investment grade last month, Cemex approached the agency for investment grade status. Some US institutions, prohibited from buying speculative grade bonds, were therefore able to take up the Cemex bonds, said J.P. Morgan, who jointly managed the offering. For many US investors, this issue was the first Mexican offering they had bought.

However, Mr Philip Bates, managing director at S&P, emphasised that obtaining investment grade from Duff & Phelps is not the same as from S&P or Moody's, both of which are widely used by investors internationally. He said it was reasonable to assume that Mexico's sovereign rating from S&P would remain speculative this year.

"Some people would like to pretend the 1980s did not exist, but they did," said Mr William Chambers, director of S&P, noting that not long ago Mexico's economic policy was in disarray and the country defaulted on its foreign bank debt. While current economic policy is viewed positively, uncertainty over passage of the North American Free Trade Agreement, the succession to President Carlos Salinas, and a weak US economy could yet cause problems, the agency argues.

S&P, and mora so Moody's, remains worried about Mexico's current account deficit which, at 7 per cent of GDP last year, is "pushing the limit of sustainability". The short maturity of capital that finances the deficit, much of which is in 28-day government paper, also remains a concern.

Such conservatism draws fire from the Wall Street banks, such as Salomon Brothers, that are keen to push Mexican bonds. In a recent report Salomon concluded that Mexico was virtually investment grade, having proved its determination and skill in handling a variety of political and economic challenges during 1992.

Salomon is particularly scornful of Moody's claim that Mexico's political institutions may be unable to manage the process of economic change, or that social inequalities could threaten political stability.

"The inequality in Mexico, while serious, can be compared structurally with that in the US," concluded Salomon Brothers.

J.P. Morgan said the sovereign ceiling for corporate bonds "creates an inefficiency", since a company such as Cemex might he investment grade were it resident in an investment grade country.

"You have to compare Cemex against other multinationals and not against other Mexican companies," said J.P. Morgan. "It is a company with margins, cash flow, and is diversified [geographically]."

S&P is more conservative, pointing out, in a recent report, the dangers of buying Latin American corporate bonds, aside from country risk and devaluation concerns.

Given the rapid opening to international markets, many Latin American companies face a more competitive environment than they did a few years ago, on which credit history is often based. Reporting requirements and accounting standards are also more lax in Latin America than in the US, with companies often not hreaking down costs and revenues by division.

Ownership of companies is generally much more concentrated than in the US, making sudden shifts in strategy more possible.

About 18 months ago, a few controlling shareholders in Grupo Visa, which controls the Mexican beverage company Femsa, financed their $2.55bn purchase of Bancomer by increasing debt in Femsa. In a company with more diversified ownership, it is unlikely that Femsa would have been used to finance the purchase of a bank.

While recognising snch risks, some Wall Street hankers argua that the returns more than justify the extra risks of buying these bonds.

Damian Fraser

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
JDC Corp.(a)φ	140	Jun.1997	1.125	100	-	-	Nikko Europe
Daiwa Kosho Lease Co.(d)φ	200	Jun.1997	1.125	100	-	-	Daiwa Europe
Compagnie Bancaire	300	Jul.1998	5.25	99.9R	5.287	+70 (4¼%-98)	Paribas Capital Markets
Celulosa Arauco	150	Jun.1998	7.25#	99.547R	7.360	+210(5⅝%-98)	Chase Investment Bank
Nippon Oil & Fats Corp.(f)φ	100	Jun.1997	¹⁄₄1	100	-	-	Yamaichi Intl.(Europe)
Finance One Public Co.(g)§	65	Jun.2003	5.75	100R	-	-	Salomon Brothers Intl.
Banco Mercantil de Sao Paolo	50	Dec.1995	9#	99.6714R	9.150	+482 (h)	Chemical Investment Bk.
Banco Geral do Comercio	50	Dec.1995	10#	99.4R	10.278	+590 (h)	ING Bank
Industries Villares+	30	Jun.1996	11#	99.3532	11.260	-	Morgan Grenfell & Co.
Nafinsa‡	100	Jul.1998	(l)	100R	-	-	Samuel Montagu
Construction Bank of China‡	70	Jul.2000	(l)	100R	-	-	J.P. Morgan Securities
Construction Bank of China‡	50	Jul.1998	(m)	100R	-	-	J.P. Morgan Securities
Tecpetrol	60	Jun.1998	9.875	99.903R	9.901	-	Chase Investment Bank
YEN							
SBAB	10bn	Sep.1995	4	100.2R	3.913	-	Bank of Tokyo Cap.Mkts.
Sapporo Breweries§(n)	40bn	Jun.2000	1.375#	100	-	-	Yamaichi Intl. (Europe)
Kingdom of Sweden(q)	50bn	Feb.1998	4.625	99.44R	4.757		Nomura Intl.
D-MARKS							
Republic of Portugal	1.5bn	Jul.2003	7.125	99.80R	-	-	Commerzbank/ Dresdner
Hungarian Foreign Trade Bank	100	Jul.1998	9.5	101	9.241	-	Bayerische Landesbank
STERLING							
Cheltenham & Gloucester BS	150	Jun.1998	7.875	99.57R	7.983	+70 (7¼%-98)	JP Morgan Securities
Yorkshire Water(l)§	60.4	Sep.2008	6.75#	100R	-	-	Baring Brothers & Co.
The World Bank(o)	150	Dec.1998	7.25	99.582R	7.331	+14 (7¼%-98)	Barclays de Zoete Wedd
CANADIAN DOLLARS							
Prov. of British Columbia(e)	1.25bn	Jun.2003	7.75	98.725R	7.939	+45 (7¼%-03)	ScotiaMcLeod(e)
Kansai Intl. Airport Co.	200	Jul.2003	8	99.58R	8.083	+42 (7¼%-03)	IBJ International
Nippon Telegraph & Telephone	200	Jun.1998	7.25	99.5R	7.373	+37 (6½%-98)	Paribas Capital Markets
Ford Credit Canada	125	Jul.1998	8	99.95R	8.012	+100(6½%-98)	Wood Gundy
ITALIAN LIRA							
IMI Bank Intl.(p)	200bn	Jul.1998	11.125	101.6	10.695	-	IMI Bank (Lux)
ECUS							
Kingdom of Sweden	500	Jun.2000	7.25	98.59R	7.518	-	Swiss Bank Corp.
GUILDERS							
World Bank	750	Jun.2003	6.75	99.9R	6.764	+8.4(6½%-03)	ABN Amro Bank
Schiphol Airport	400	Jul.2000	6.75	99.80R	6.787	+15 (9%-00)	ING Bank
DANISH KRONER							
Mortgage Bank of Denmark	300	Jul.1998	7	101.3	6.509	-	Kredietbank, Brussels
Mortgage Bank of Denmark	300	Jul.2000	7.375	101.875	-	-	Kredietbank, Brussels
PESETAS							
World Bank(k)	10bn	Jun.1998	10.35	101.25	10.020	-	Banco Central Hispano
LKB Finance(k)	10bn	Jul.2003	10.6	101.15	10.410	-	Bco.Trans(Deutsche)
AUSTRALIAN DOLLARS							
Societe Generale Australia	100	Jul.1998	7.0	100.85	6.770	+12(h)	Hambros Bank
SWISS FRANCS							
Taisei Oncho Co.(b)+§	70	Sep.1997	1.875#	100	-	-	Nomura Bank (Switz.)
Aoki International Co.(c)+φ	300	Jun.1997	1.25	100	-	-	Nomura Bank (Switz.)
Iberdrola International	200	Jul.2003	5.25	101	5.120	-	UBS
Japan Trancity Corp.(d)+φ	100	Jun.1997	1.125	100	-	-	Credit Suisse
National Power Co.of Iceland	50	Jun.2000	5.5	101.75	5.195	-	UBS
Toyota Motor Credit+	100	Jul.1998	4.75	102	4.287	-	Banque Paribas (Suisse)
LUXEMBOURG FRANCS							
IMI Bank International	1.5bn	Jul.2003	7.75	102.05	7.452	-	Kredietbank Luxembourg

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. +Private placement. §Convertible. φWith equity warrants. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price. a) Denom.: $10,000 + 2 warrants. Exercise price: Y997, FX: 107.90Y/$ b) Conversion price: Y2563, FX: 78.47Y/SFr. Callable on 30/6/95 at 102% declining by ½% semi-annually. Accelerated clause. Conversion price revision clause. c) Callable on 16/6/95 at 102% declining by ½% semi-annually. Exercise price: Y4377, FX: 78.31Y/SFr. d) final terms fixed on 7/6/93. e) Global issue. ScotiaMcLeod is global co-ordinator. f) Final terms fixed on 7/6/93. g) coupon indicated at 5½-6¼% and conversion premium at 5-12%. Redemption price linked to $/Baht exchange rate. Mandatory conversion clause. Conversion price: 136.8 Baht. h) Spread is over the interpolated yield curve. l) Coupon pays 6 month Libor + 0.25%. Maximum coupon 10%; minimum 5.625%. l) Conversion price: 606p. Callable at par from 14/10/98 or earlier if 85% of bonds are converted. k) Matador bonds. l) Coupon pays 6 month Libor + 0.60%. Tranche B of $120m issue. m) Coupon pays 6 month Libor + 0.50%. Tranche A of £120m issue. n) Final Terms fixed on 8/6/1993. Callable 1/7/1994 at 105% falling by 0.5% annually to 100.5 in 1999. Subject to 130% rule. Put option at par on 30/6/1998. o) Fungible with existing £200m issue. p) Amount increased from Lire 150bn. q) Fungible with existing Y100bn issue from 16/6/1993. Plus 44 days accrued interest. Note: Yields are calculated on ISMA basis.

RISK AND REWARD

Chicago looks to rolling contracts to gather investors

THE rapid growth in global currency trading has been fuelled by the way corporate money managers use forwards, swaps, and options to manage the foreign exchange risks of their overseas operations.

One of the early arrivals on the currency derivatives scene was the Chicago Mercantile Exchange. It introduced currency futures in 1972, and later added options on all of its futures contracts. Though first out of the blocks, the contracts never really moved into the mainstream of foreign exchange trading. They proved too small to serve the largest bank and corporate traders cost-effectively and they lacked the flexibility of the tailored transactions available in the interbank market.

As over-the-counter derivatives exploded, the CME's share of the $1,000bn-a-day forex market shrank. Traders estimate daily turnover in CME futures and options comprises only 1 per cent of the world foreign exchange market, compared with 5 per cent a few years ago.

Distressed at being bypassed, the exchange developed a product that simulates spot-market forward trading, and companion short-dated currency options. The exchange was careful to market the integrity of its clearing house and tha new products, playing on concerns that pricing formulas for over-the-counter currency options leave some dealing banks overexposed should volatility rates in foreign exchange markets rise unexpectedly.

CME clearing house guarantees will likely attract second- and third-tier banks that do not want to overextend their credit lines at the larger banks, and who want to avoid counterparty risk, said Mr David DeRose, a trader with Swiss Bank Corporation.

The CME's rolling spot contracts, as they are called, address some defects in existing products. They will be offered in larger denominations than the CME's current futures and will not require the daily settlement, and associated costs, of spot market rollovers.

The first of the new products, rolling spot futures and options on sterling, will be launched on June 15. The contracts, denominated in 250,000 units, are sized for institutional trades. Rolling spot futures in other currencies, inclnding D-Marks, will follow later this year.

They will be offered on Globex, the overnight electronic trading system, as well as on the trading floor. Most foreign exchange traders do not want to take delivery of the actual currency, so they customarily roll the postions, netting the applicable cash flow. While often highly customised, these rollovers can incur significant operational and transactional expense.

The CME product will automatically roll over each day until the trader offsets the transaction or accepts delivery. The exchange will calculate the roll rate each day at approximately 5.30 pm London time, leaving the remainder of the Chicago session for decisions on whether to roll or exit a position. The roll rate is based on a survey of spot market prices.

The contract will he netted or debited in cash each day according to the published rate. Traders who wish to take delivery before a contract expires can arrange an "exchange for physical", or EFP, which swaps the futures position for a cash position.

While the exchange is marketing the products as a "better mousetrap," no one expects them to overwhelm the spot market. As with any product, liquidity is crucial to trading, and the bank-traded foreign exchange markets are the most liquid in the world. Diverting trades to the new Chicago arena will be difficult, at best.

Because it is an exchange, the CME cannot customise products. Rolling spot futures will replace only the most generic or "plain vanilla" spot transactions. And, because the CME is a licensed exchange and subject to tight federal oversight, the paperwork required to track trades could discourage participation.

Exchange officials recognise this, and have taken the unusual step of applying for exemption from Commodity Futures Trading Commission supervision for the rolling spot futures and options. It is the first time a US exchange has sought such an exemption since the new US futures oversight law became effective this year.

Laurie Morse

THE WEEK AHEAD

ECONOMICS

US inflation fears may ease

FEARS in the US that inflation is about to pick up should be allayed this week if economists' expectations for May producer price inflation prove correct.

The median forecast is for a rise of 0.2 per cent on the month, following an unusual 0.6 per cent jump in April.

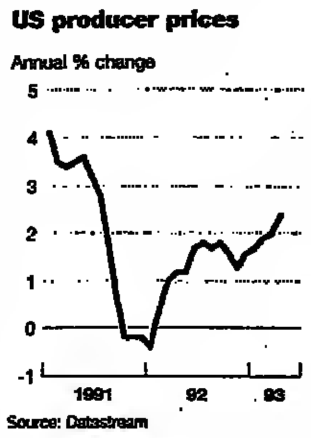
A sharp 0.4 per cent rise in the so-called core measure of producer price inflation, which excludes volatile food and energy prices, added to concerns in April. The core measure for May is forecast to have risen by 0.2 per cent.

Many analysts believe that the April figures should prove to be an exception rather than the start of a new trend. In April, price increases for new cars and tobacco products contributed half of the price rise in the total. Last month, by contrast, food and energy prices probably declined slightly after a few months of volatile, but mainly large increases.

Retail sales figures are also out in the US this week. They are expected to have risen more moderately last month than they did in April. Car sales were again strong in May following a 3 per cent rise in April.

According to analysts at Midland Global Markets, cars have been the strongest sales component since the recovery began. Building materials are also expected to have grown robustly in May.

In the UK, April consumer credit figures are out today. They are expected to be slightly less robust than in March, reflecting the weakness of retail sales activity during the month. On Thursday the Central Statistical Office releases the 1993 edition of Regional Trends, which brings together a wide range of statistical information on the regions of the UK.



The following are some of the week's other economic highlights. Figures in brackets are the median of economists' forecasts from MMS International, the financial information company.

Today: UK, April consumer credit (up £150m). Spain, May official reserves ($44.4bn). Sweden, International Monetary Conference - lasts until Wednesday. US, April consumer credit (up $3.3bn). Australia, May ANZ job ads; April retail trade (up 1 per cent on month); Foundation Day - Western Australian markets.

Tomorrow: Sweden, Lloyd Bentsen, US Treasury secretary, addresses International Monetary Conference. US, April wholesale trade; Johnson Redbook, week ended June 5. Australia, Q1 housing starts; Council of Australia government meeting.

Wednesday: US, chairman of National Economic Council addresses Amex conference in Washington. Sweden, Greenspan and Schlesinger scheduled to take part in discussion at International Monetary Conference. Japan, Royal Wedding - all markets closed.

Thursday: Sweden, May consumer prices index (up 0.1 per cent on month, up 5.1 per cent on year). Norway, May CPI (up 0.2 per cent on month, up 2.6 per cent on year). Germany, holiday in most parts, Frankfurt markets closed. US, initial claims ($39,000), state benefits; 1992 capital spending; money supply data for week ended May 31; May monthly money supply, M1 (up $23bn), M2 (up $27bn), M3 (up $28bn). Australia, May employment (up 45,000 on year), May unemployment rate (10.8 per cent).

Friday: France, May CPI (up 0.2 per cent on month, up 2.2 per cent on year). US, May retail sales (up 0.8 per cent), excluding autos (up 0.5 per cent), May PPI (up 0.2 per cent on month), excluding food and energy (up 0.2 per cent on month). Japan, Bank of Japan releases May Tankan survey.

During the week: Germany, May cost of living, April retail sales (down 1.7 per cent on year). Netherlands, May CPI (up 0.1 per cent on month, up 2.2 per cent on year). Switzerland, Geneva and Zurich CPIs for May, Federal CPI (up 0.2 per cent on month, up 3.7 per cent on year), May unemployment rate (5.1 per cent).

Emma Tucker

RESULTS DUE

BAA flies in on upgraded forecasts

BAA, the airport operator, has enjoyed upgraded forecasts in recent weeks ahead of its full-year results today.

Traffic growth has meant more revenues from landing fees and retail trade. Pre-tax profits could approach £300m against £192m. A £30m gain on the sale of its electrical distribution network will be offset by provisions on property.

Northern Foods is expected to report on Wednesday pre-tax profits for the full year a shade above £150m, up from £126.2m a year earlier.

The forecast increase reflects a strong performance by short shelf-life foods, notably the convenience meals supplied to Marks & Spencer, and continued gains from post-acquisition rationalisation of the Express milk operations.

However, biscuits and other grocery products are expected to show the impact of recession, while high beef and pork prices have offset the benefits of efficiency improvements in the processed meat businesses.

Unigate, the food and distribution group, is expected tomorrow to announce profits almost unchanged at £93m for the year to March 31.

Analysts will be watching to see whether the company has recovered from a disappointing first half, and also at Unigate's gearing levels.

Last month the company postponed an initial public offering of its US restaurant business, which had been designed to reduce net borrowings.

Pilkington, the glass group which announces results on Thursday, is expected to announce a sharp fall in profits from £77m to £37m for the year to March 31.

But attention is likely to focus on Pilkington's cash flow and the dividend, which the company maintained by raiding reserves at the interim stage. Analysts will also be keen to hear more about Pilkington's plan to make a joint bid to acquire Societa Italiana Vetro from the Italian authorities.

Vodafone, the cellular telephone network spun off from Racal, has benefited from a sharp increase in new subscribers. Pre-tax profits for the year to March, to be announced tomorrow, are forecast at about £320m against £272m a year earlier.

PowerGen, the smaller of the two main electricity generators, has seen a small erosion of its market share during the year but cost cutting will have helped it lift pre-tax profits to about £415m from £359m.

Christian Salvesen, the distribution group, is expected to report pre-tax profits for the year to March of around £75m.

PARLIAMENTARY DIARY

■ TODAY
Commons: Questions to Social Security ministers and Chancellor of the Duchy of Lancaster. Asylum and Immigration Appeals Bill, Lords amendments. Welsh Language Bill, motion.
Lords: European Communities (Amendment) Bill, second reading.

■ TOMORROW
Commons: Health questions. Questions to the Prime Minister. Northern Ireland (Emergency and Prevention of Terrorism Provisions) (Continuance) Order. Legal Aid (Northern Ireland) regulations. Private business - Crossrail Bill, second reading.
Lords: European Communities (Amendment) Bill, second reading.

■ WEDNESDAY
Commons: Scottish questions. Debate opened by Opposition - subject to be announced later. Council Tax Limitation (England) (Maximum Amounts) Order.
Lords: Debate opened by Opposition - subject to be announced later. Debate on public sports facilities.
Select committees: 10.15am, Agriculture - subject: effects of conservation measures on the UK sea fishing industry. Witnesses: UK association of frozen food producers, south eastern fishermen's protection association, Fleetwood fish producers' organisation, Northern Ireland fishermen's federation, Marine conservation society (Room 20).
10.15am, Parliamentary commissioner for administration - subject: powers, work and jurisdiction of the Ombudsman. Witnesses: Justice Dr Martin Oosting, Netherlands ombudsman (Room 18).
10.30am, Scottish affairs - subject: drug abuse in Scotland. Witnesses: Association of Police Officers in Scotland, Scottish prison service. (Room 6).
10.30am, Trade and industry - subject: competitiveness of UK manufacturing industry. Witnesses: TUC, EEF (Room 15).
10.45am, Welsh affairs - subject: rural housing. Witnesses: commission for local administration in Wales; housing for Wales (Tai Cymru) (Room 18).
4.15pm, Education - subject: Department for Education's expenditure plans 1993-94 to 1995-96. Witnesses: officials of the Department for Education (Room 18).
4.15pm, Employment - subject: operation of employment legislation governing industrial disputes. Witnesses: Mr John Hougham, chairman Acas (Room 20).
4.15pm, Health - subject: community supervision orders. Witnesses: British Association of Social Workers, and National Schizophrenia Fellowship (Room 15).
4.15pm, Treasury and civil service - subject: role of the Bank of England. Witnesses: Sir Peter Middleton and Sir George Blunden (Room 5).
4.15pm, Home affairs - subject: funding of political parties. Witnesses: Prof Keith Ewing, Prof Lewis Minkin and Dr Michael Pinto-Duschinsky (Room 6).
4.45pm, Science and technology - subject: routes through which the science base is translated into innovative and competitive technology. Witnesses: officials of the department for education. (Room 8).
5pm, Procedure - subject: unified budget. Witness, Mr Tony Newton, leader of the Commons. (Room 21).

■ THURSDAY
Commons: Agriculture questions. Questions to the Prime Minister. Estimates day - debate on administration relating to National Heritage Department spending on legislative framework and arrangements for the Press.
Lords: Education Bill, report. Merchant Shipping (Registration) Bill, committee.
Select committees: 10.30am, National heritage - subject: future of the BBC. Witnesses: voice of the listener and viewer; Broadcasting standards council (Room 15).
3.15pm, Social security - subject: operation of pension funds. Witness: Mr John MacGregor, transport secretary (Room 15).

■ FRIDAY
Commons: Debate on improved productivity in UK manufacturing.
Lords: Not sitting.

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Bodycote Intl., Holiday Inn Crowne Plaza, Midland Hotel, Peter Street, Manchester, 12.00
Davis Service Grp., Glaziers Hall, 8 Montague Close, SE., 11.00
Perry Grp., Cambridge House, Bluecoats Avenue, Hertford, 12.00
Westminster Scaffolding Grp., 10 Snow Hill, EC., 10.00
BOARD MEETINGS:
Finals:
Acal
BAA
Critchley Grp.
Cullens
EFM Income Tst.
EMAP
Henderson Admin.
Hicking Pentecost
Leigh Interests
Powergen
Vodafone
Interims:
Aberdeen Tst.
Johnson & Firth Brown
Manakin

■ TOMORROW
COMPANY MEETINGS:
Baillie Gifford Technology, 1 Rutland Court, Edinburgh, 12.00
Campari Intl., International House, Priestley Way, Staples Corner, NW., 12.00
EIS Grp., Brewers Hall, 20 Aldermanbury Square, EC., 11.00
Martin Currie Pacific Tst., Saltire Court, 20 Castle Terrace, Edinburgh, 12.30
Ropner, 140 Coniscliffe Road, Darlington, 12.30
Sleepydds, Mansion House at Grim's Dyke, Old Redding, Harrow Weald, Middlesex, 8.30
London & Associated Inv. Tst., 30-34 New Bridge Street, EC., 12.00
BOARD MEETINGS:
Finals:
Allied Colloids
Andrews Sykes
Anglian Water
BSS
Brazilian Inv. Tst.
CML Microsystems
Cape
Gt. Portland Estates
GWR Grp.
Hambros
Heath (C.E.)
Johnson Matthey
Marston, Thompson & Evershed
National Grid
Proteus Intl.
Seton Healthcare
Unigate
Interims:
Burndene
Daily Mail & Gen. Tst.
Devenish (J.A.)
Murray Johnson

■ WEDNESDAY
JUNE 9
COMPANY MEETINGS:
AMEC, Holiday Inn Crowne Plaza, Midland Hotel, Peter Street, Manchester, 12.00
British Fittings Grp., Stone Manor Hotel, Kidderminster, 12.00
C.I. Grp., Novotel, Union Street, Wolverhampton, 10.00
BOARD MEETINGS:
Finals:
Airsprung Furniture
Caffyns
Cape
Electrocomponents
Lep
Lyons Irish
M & G 2nd Dual Tst.
Meyer Intl.
Northern Foods
Pilkington
Racal Electronics
Interims:
Blick
Greencore
Lookers
McLeod Russell
Sanderson Electronics

■ THURSDAY
JUNE 10
COMPANY MEETINGS:
Austin Reed, 16-21 Sackville Street, W., 12.00
Cliff Resources, Holiday Inn, Mayfair, 3 Berkeley Street, W., 12.00
Computer People Grp., Victory House, 7 Seladon Way, E., 9.30
Elys (Wimbledon), 22-26 Wimbledon Hill Road, Wimbledon, SW., 6.00
HTV Grp., Television Centre, Bristol, 12.30
United Energy, 4 Hamilton Place, W., 11.00
Wensum, 10 Newhall Street, Birmingham, 11.30
BOARD MEETINGS:
Finals:
ACT
Alphameric
Blacks Leisure
Chubb Security
Cropper (James)
Dares Estates
Drummond
Moorgate Smaller Cos. Inc.
Oxford Instruments
Powerscreen
600
Salvesen (Christian)
Scapa
Scottish Hydro-electric
Staveley
Welpac
Interims:
Control Techniques
Eldridge, Pope & Co.
Gold Fields Coal
RCO

■ FRIDAY
JUNE 11
COMPANY MEETINGS:
Dewhirst Grp., Merchant Taylors Hall, Aldwark, York, 12.00
Higgs & Hill, Howard Hotel, Temple Place, Strand, WC., 11.00
Martin Intl. Hldgs., Swallow Hotel, South Normanton, Derbys, 12.15
Morgan Crucible, Hotel Intercontinental, 1 Hamilton Place, W., 12.30
Reece, New Connaught Rooms, Great Queen Street, WC., 10.30
BOARD MEETINGS:
Finals:
Cohen (A)
East Midlands Elec.
High Gosforth Park
Sonic
Ticketing Grp.
VTech
Wintrust
Interims:
Alvis
First Philippine Inv. Tst.
M & W

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

DIVIDEND & INTEREST PAYMENTS

■ TODAY
AGA Series B SKr3
Bentalls 1.3p
Chemical Banking Gtd. Flg. Rate Sub. Nts. 1998 $132.71
Chubb Intl. 8% Un. Ln. 1992/95 £4
ENSERCH $0.05
Esselte Series A SKr2.50
Do. Series B SKr2.50
Exmoor Dual Inv. Tst. 2.6p
Firsbury Growth Tst. 0.9p
Freeman Grp. 3p
Highland Distilleries 1.6p
Hydro-Quebec 9¼% Dbs. Series GY 1995 C$8.25
LASMO 1p
Lockheed $0.53
Marley 2.1p
Northern Rock Bldg. Soc. Sub. Flg. rate Nts. 2002 £2,053.73
Do. Mezzanine Intl. $0.25
St. Ives 1.6p
Scottish Television 8.2091p
Thomson Clive Invs. 3.8p
Tokyo Electric Power Co. 11% Nts. 2001 £110

■ TOMORROW
Bank of Ireland Undated Var. Rate Nts. $1,070.14
Cardiff Automobiles Receivables Securitisation No. 2 Class A Nts. 1997 £162.58
Do. Mezzanine Flg. Rate Nts. 1997 £189.04
Daws Service 5.25p
Fuji Intl. Finance (Australia) Flg./Fixed Gtd. 2001 $473.13
Halifax Bldg. Soc. Flg. Rate Sub. Nts. 2000 £170.77
National Westminster Bank Var. Rate Capital Nts. 2009 £163.84
Nationwide Bldg. Soc. Flg. Rate Nts. 1995 £152.44
New Zealand Flg. Rate Nts. 1996 $195.90
Reed Intl. 5% Cm. Pf. 1.75p
Do. 7% Cm. Pf. 2.45p
SCA Svenska Cellulosa Non-restricted B SKr3.20
Standard Chartered Undated Primary Capital Flg. Rate Nts. (Ser. 3) $203.49
Tenneco $0.40
3i Grp. Gtd. Flg. Rate Nts. 1997 £160.68
3i Intl. 8⅛% Ser. A Gtd. Bds. 1994 FFr154.82

■ WEDNESDAY
JUNE 9
Amer FM2
Anheuser-Busch $0.32
Bankamerica Flg. Rate Sub. Cap. Nts. 1997 $37.50
Beckman (J.) 1.2p
Berry Starquest 2.2p
Bletchley Motor 4.4p
European Inv. Bank 9¼% Ln. 2009 £237.50
Investors Capital Tst. 1.275p
Jupiter European Inv. Tst. 0.5p
Mandarin Oriental Intl. (Bermuda Reg.) $0.0359
Do. (Jersey Reg.) $0.0359
Marin Currie Pacific Tst. 0.4p
News Intl. 9½% Gtd. 1994 $97.50
Peninsular & Oriental Steam Navigation Defd. 17p
United Kingdom 10% Treas. Ln. 1994 £5

■ THURSDAY
JUNE 10
Abbey National Treasury Services 5⅜% 1994 Y51,250
AlliedSignal $0.29
EICC 13.25p
Boosey & Hawkes 16p
British Fittings 1p
Chevron $0.875
Dun & Bradstreet $0.61
Exxon $0.72
Fuji Bank Intl. Finance Perp. Sub. Gtd. Flg. Rate Nts. $10,350
General Electric Capital 10% Nts. 1996 C$100
General Motors $0.20
Do. E.D.R. $0.01
Grace (W.R.) & Son $0.35
Great Southern 7.4p
Hapoalim Flg. Rate Nts. 2001 $202.22
Hongkong Land Hldgs. (Bermuda Reg.) $0.065
Do. (Jersey Reg.) $0.065
Houston Inds. $0.75
Intl. Business Machines $0.54
Leeds Permanent Bldg. Soc. 13⅜% PIBS £3,406.25
Lilly (Eli) & Co. $0.605
Lucas Inds. 10¼% Uns. Ln. 1992/97 2.1p
Mobil $0.80
Renown Incorporated 5⅛% Cv. 1996 £128.58
SABRE Intl. Series Q Var. Rate Sec. Nts. 1996 Y48,000
Sun $0.45
Texaco Capital Six. $0.80
Travelers $0.40
United Kingdom 8% Treas. 2003 £2,3861
United Technologies $0.45
Warner-Lambert $0.57

■ FRIDAY
JUNE 11
African Lakes Corp. 2p
Air London Intl. 1.6p
APV 3.4p
Bank of Ireland Undated Flg. Rate primary Capital Nts. $89.44
British Empire Securities & General Tst. 0.25p
Chepstow Racecourse 1p
E.I. Du Pont De Nemours & Co. 7½% Nts. 1999 $75
East Rand Gold and Uranium R0.35
Forte 4.75p
Free State Consolidated Gold Mines R1.40
Guildhall Property 6⅞% 1st mtg. db. 1990/95 £2.44883
Higgs & Hill 1.5p
Hongkong & Shanghai Banking Corp. Primary Capital Undated Flg. Rate Nts. $63.89
Ipeco 2.3p
Kobe Steel 4.7% 1998 Y126,639
Kubota Flg. Rate Nts. 1997 Y93,597
Laing (John) 6p
Do. A (N/V) 6p
Lloyds Bank Primary Capital Undated Flg. Rate Nts. $190.06
Lloyds Chemists 2p
Metsä & Co. 4.30% 1997 Y105,694
Do. 4.60% 1998 Y116,278
Monsanto $0.58
National Medical Enterprises $0.12
Nichii 5.5% 1996 Y275,000
Orange Free State Invs. R3.64
Quicks 2.75p
Saker's Finance & Investment 5.5% Gross Cm. Pf. R0.055
Sherwood Computer Services 5.25p
Shorco Group Hldgs. 2.8p
Temple Court Mortgages (No.2) Class A2 Multi-Class Mtg. Backed Flg. Rate Nts. 2031 £161.95
Weir 8.3p
Woolwich Bldg. Soc. Flg. Rate Nts. 1994 £151.04

■ SATURDAY
JUNE 12
Eaton Finance 12½% Un. Ln. 2014 £6.25
Royal Bank of Canada 8¾% Deposit Nts. 1993 $418.75
United Kingdom 12% Exch. 2013/17 £6

هكذا من الأصل

FINANCIAL TIMES SURVEY

URUGUAY

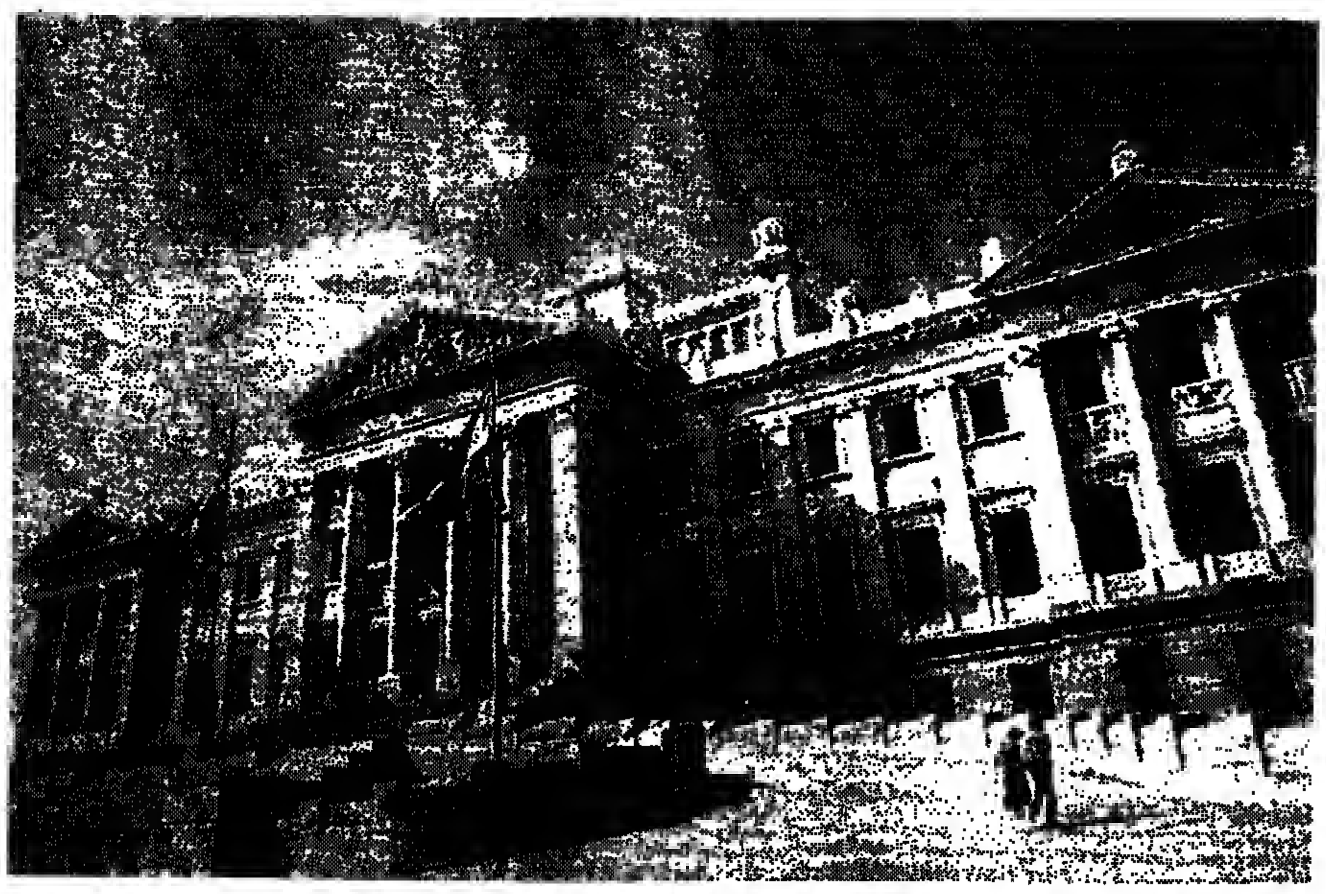
Uruguay's electoral system aggravates hostile factionalism in politics: **Page 2**

Congress has blocked the government's efforts to modify pensions: **Page 3**

Monday June 7 1993

Uruguay's quality of life is close to the levels of some western European countries, report **Stephen Fidler** and **John Barham**. Uruguay also has the oldest welfare state in the world – a heavy burden on the economy. But how long can it be sustained?

Reforming the welfare state



President Lacalle (above) can count on only 27 of the 99 deputies and only a handful of the 31 senators in the Uruguay parliament (left)

URUGUAYANS have long enjoyed a higher quality of life than the rest of Latin America. According to the United Nations Development Programme, they still do.

The programme's Human Development Index – which brings together of economic and social indicators such as life expectancy, adult literacy and income – rates Uruguay's quality of life higher than any other Latin American country and close to the levels of some western European countries.

Not surprisingly, Uruguayans are keen to preserve this. They see as the key to their living standards the privileges they enjoy under their welfare state – the oldest in the world, dating back to 1903 and the administration of President Jose Batlle y Ordoñez.

As a result, they have proved deeply resistant to the forces of economic reform and modernisation which have swept the rest of Latin America.

Uruguayans' deeply embedded conservatism has conspired against change. Attempts to join the regional reform movement by the government of President Luis Alberto Lacalle, which took office in March 1990, have, by and large, failed.

Yet the current social welfare system represents an increasingly heavy burden on the state which sooner or later will become unsustainable. The question is not whether the welfare state can survive in its current form, but when and how will it be changed.

The central problem is the high ratio of those who depend on or work for the state compared with the rest of the active population.

The country has a workforce of about 1.1m, of which about 270,000 work for the state, including 60,000 who work for state enterprises. A further 450,000 people are drawing an estimated 600,000 pensions.

"We have a ratio of passive to active population of 1.4 or 1.5. No social security system in the world can work on a ratio of below three," says Mr Ignacio de Posadas, Uruguay's minister of finance.

The pension fund is bankrupt and relies on continual injections from the treasury. The civil service and state companies are overstaffed, suffer low productivity and are in general poorly managed.

Mr Michele Santo, a columnist for the weekly Busqueda newspaper, says that 80,000 of the 270,000 public employees are surplus to requirements – this is a hidden unemployment subsidy which has led to the "hypocrisy that they pretend to work and we pretend to pay them".

But, although politicians from all parts of the political spectrum admit that the reform of the state and the welfare system are serious problems which will have to be confronted, they prefer that they should be confronted in the future.

Efforts to reform the pensions system are foundering in the face of determined opposition by pensioners, who in Uruguay are highly organised. But the inability to move ahead with reform is not only a result of grey power, but also of a deeply factionalised political system that makes strong policy action difficult.

This vicious factionalism – President Lacalle's Partido Nacional is split into four factions which are as often as hostile to each other as to opposing parties – is in part a result of an electoral system which combines primary and presidential elections.

The Partido Nacional won less than 50 per cent of the vote in the November 1989 election and the Herreristas (the faction supporting Mr Lacalle) got half his party's vote. The result was that Mr Lacalle – the second civilian president after 12 years of military rule which ended in 1985 – was elected by 22 per cent of the population. Mr Lacalle has therefore been unable to count on a solid majority in Congress. Only the 24 Herreristas and a handful of deputies from another faction support him.

ALTHOUGH Mr Lacalle managed to squeeze through Congress a proposal aimed at a modest privatisation of some state enterprises, including selling a stake in the telephone monoply, he suffered a crushing defeat in a privatisation referendum in December.

The December referendum – plebiscites are another feature of Uruguay's political system which makes decisive policy action difficult (only 10,000 signatures are needed to call one) – damaged Mr Lacalle's standing, possibly irreversibly. His popularity is also low – his approval rating in some cases has fallen to 20 oer cents.

Mr Lacalle's critics say he lacks the political skills to negotiate and has needlessly alienated Congress. His opponents, led by former president Mr Mario Sanguinetti, have withdrawn support for measures they would probably have to adopt if in office.

The government has been described as a lame duck, although elections are only due in November 1994 and Mr Lacalle hands over power in March 1995.

Mr Lacalle says: "We still have executive power and we do what we can. For example we were able to renegotiate the external debt. As soon as it requires a change in the law, then it is more difficult."

Mr Carlos Cat, the planning and budget minister and president of the Blanco party committee, comments: "We failed by not getting important structural reforms that were fundamental to modernise the country, stabilise the economy and get reasonable inflation."

Unlike Argentina, the Uruguayan head of state can do little by decree – "we have to do it all by law," says Mr Cat.

He is deeply frustrated by the silliness of Congress: he recalls that a government plan to close a finance ministry office and sending its 200-plus employees home on full pay was vetoed in congress, which ordered the goverment to reinstate the bureacrats.

A former cabinet minister argues that, slowly but surely, economic reality is pressing in on Uruguay.

He adds that the economy's performance is sound: although still low, the investment rate has increased 20 per cent a year every year. The growth in employment (150,000 new jobs since 1983) has come exclusively from the private sector.

He says Lacalle's opposition is acting tactically: it opposes his policies virulently as a vote-catching gimmick, but shrinks from halting them – as illustrated in the failure of the vote of censure last month against Mr de Posadas.

In other words, the opposition wants President Lacalle to do the dirty work – "gradually people are recognising that things need to change, bnt the people do not accept radical solutions." A sign of changing attitudes is that "breadwinners no longer want to work in the public sector."

An example of the convergence of political attitudes is Mr Tabare Vazquez, the charismatic left wing mayor of Montevideo, elected in 1989 on the left wing coalition ticket of Frente Amplio. Initially raising wages and subsidising public transport, he is now adopting more conventional policies.

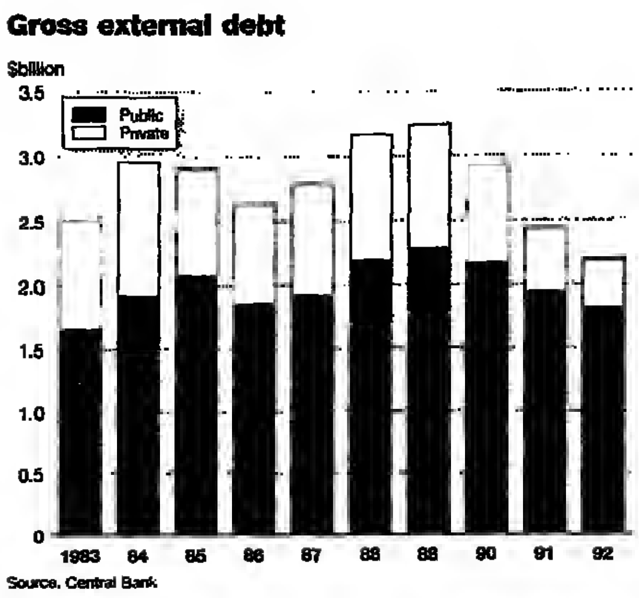
Mr Vazquez has ideas of political decentralisation and equity in social policies that would fit into – for example – the mainstream of the British Labour Party or even the Tories' wet fringe. He is likely to become the Frente Amplio's candidate in next year's elections, although he denies he's interested in the presidency. However, he is clearly moving to the right and trying to broaden his appeal:

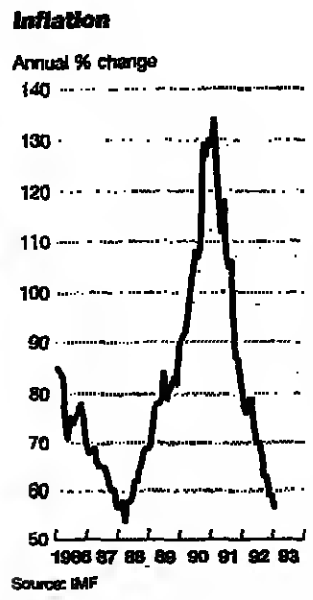
"I believe in a model state that gives the possibility of participation to all, without distinction, including private investment and even foreign investment and that the right to profit will condition that investment."

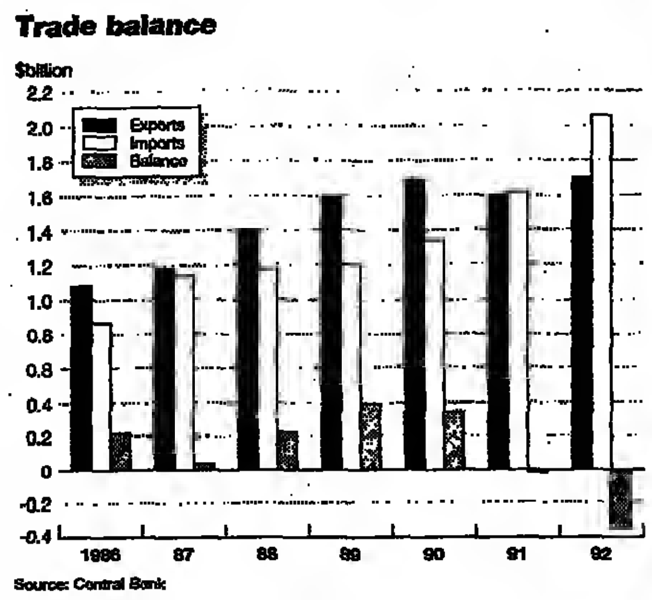
The labour unions however remain a power in the land – a series of general strikes against the government have not helped Mr Lacalle's popularity – and are still dominated by largely unreconstructed leftists with few new ideas.

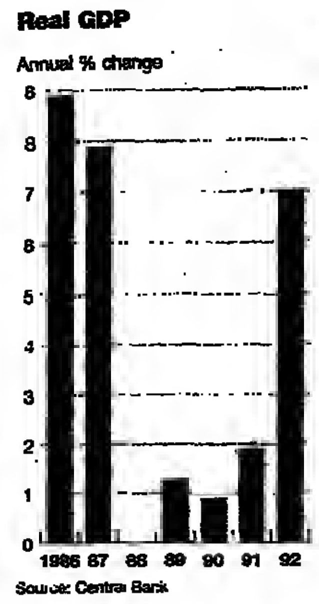
Continued on page 3

URUGUAY 2









KEY FACTS

Area		176,215 km²
Population		3.13m (mid-1992)
Head of State		President Luis Alberto Lacalle
Currency		Peso Uruguayo
Average exchange rate		1992 3,030 = US$1
		Latest 3,845 = US$1
	1991	1992
ECONOMY		
Total GDP ($bn)	9.48	11.19
Real GDP growth (%)	1.9	7.0
GDP per capita ($)	3,046	3,576
Components of GDP (%)		
Private consumption	70.0	n/a
Gross fixed investment	12.5	n/a
Stockbuilding	0.5	n/a
Government consumption	13.3	n/a
Exports	23.5	n/a
Imports	19.8	n/a
Consumer prices (% change pa)	102.0	68.5
Average wages (% change end yr)	92.2	58.2
Unemployment (% of lab force)	n/a	9.0
Reserves minus gold ($m end yr)	346	530
Narrow money growth (% pa)	98.3	66.6
Broad money growth (% pa)	78.7	35.7
Discount rate (% pa, end yr)	219.0	162.4
Gen govt balance (% of GDP)	0.0	+0.5
Gross external debt ($bn, end yr)	2.44	2.20
Current account balance ($m)	105	-150
Exports ($m)	1,604	1,702
Imports ($m)	1,622	2,058
Trade balance ($m)	-18	-356
Main trading partners (1992)	Exports	Imports
Brazil (% of total)	16.6	24.4
US	19.3	18.8
Argentina	11.6	10.6
Germany	7.7	4.8
Italy	4.4	3.9

Source: Central Bank, IMF, Economist Intelligence Unit, Datastream

Stephen Fidler assesses the prospects for the economy

Time bomb of dependents

THERE is little doubt that the Uruguayan economy looks in significantly better shape than when the government of President Luis Alberto Lacalle took office in March 1991. Real growth rose to about 7 per cent last year from just under 2 per cent in 1991 and less than 1 per cent in 1990.

Inflation has been more than halved from 1990's 129 per cent – though it has not fallen as fast as the International Monetary Fund would have liked. The government's fiscal deficit has also been cut dramatically from 7.4 per cent of gross domestic product in 1989 to less than 1 per cent last year. This has been helped mainly by higher tax revenues, thanks in part to tax measures agreed soon after the government took office, and a reduction in servicing charges on foreign debt – because of lower US interest rates and a negotiated debt reduction deal completed by the government in 1991.

The question is whether the improving trend can last. According to the New York bank JP Morgan, the economic achievements of bringing down the budget deficit, reducing inflation and spurring growth "have owed much to policies of doubtful sustainability along with external events of fortuitous and transitory benefit".

Morgan argues that growth will slow as the boom in neighbouring Argentina peters out, while the government's fiscal position will be hurt as tax increases – including a 1990 increase in value-added tax – are scaled back at the end of this year.

The government's ability to find a long-term balance in its accounts received a setback with its failure – in a referendum in December – to secure important parts of its privatisation programme. This not only deprived it of revenues from the sale of, for example, the telephone company – but also of wage savings and future tax revenues.

Furthermore, a policy of suppressing wage increases in the public sector – which has seen its standard of living fall compared with the private sector – may not be durable.

On top of that, the strong exchange rate – an appreciation of the real exchange rate has helped to bring down inflation – is hitting the country's trade position and beginning to cause strains in industry. Uruguay's first quarter trade deficit of $181m this year was close to half that for the whole of 1992 as consumer goods imports appeared to be continuing to rise.

Yet the government – like many others in Latin America – is having to deal with significant inflows of capital. If it allowed the exchange rate to float, it would be higher than it is now. Currency market intervention to reduce the appreciation has led reserves to increase – at around $1bn they cover seven to eight months of imports – but has added to the money supply, keeping inflationary pressures high.

Mr Ignacio de Posadas, Uruguay's finance minister, sees a cup at least half full. Growth this year is going to be above expectations, though perhaps down on last year: both investment and consumption is up, while unemployment has fallen. Inflation is also down – wholesale prices are rising at around 1 per cent a month, the lowest level for many years.

This has been achieved amid the poor external environment for some of Uruguay's main agricultural exports – the country suffers both from Europe's relatively closed market and the effect on third markets of the dumping of European produce – and the drought three years ago which severely depleted stocks of beef cattle. The economy is no longer dependent on agriculture as it was half-a-century ago and is much more reliant on services, including tourism which has benefited from Argentina's growth and its strong currency.

There is evidence that growth in Argentina may this year be stronger than most forecasts have been suggesting, while Brazil – whose economy contracted 1 per cent last year – is likely to enjoy positive, if modest, growth this year.

Nonetheless, Mr de Posadas implicitly acknowledges the economy may be overheating. "The government's policy hasn't been as strongly counter-cyclical as it needed to be," he said in an interview. The government in March pushed through a series of cost-cutting measures that did not require congressional approval.

Whatever the short-term outlook, however, there is little doubt that the fundamental challenges facing the Uruguayan economy have not been successfully addressed by the Lacalle government, in part because it has been unable to secure the necessary support in Congress for reform.

The key to the problem is the high dependency of many people on the state: social security – pensions, health subsidies and unemployment payments – gobble up 17 per cent of gross domestic product and more than half of the government's budget – a massive burden for a relatively poor country.

Long-term, government and opposition politicians admit that this time bomb – the growing burden on the social security system – will have to be addressed. Yet it is a problem that – because of the voting power of pensioners – is one that politicians are unwilling to raise.

With perhaps 450,000 people claiming 600,000 pensions – and a further 260,000 people working for the state out of a total workforce of 1.1m, the dependence on the government is high. "We have a ratio of passive to active population of 1.4 or 1.5. No social security system in the world can work on a ratio of below three," says Mr de Posadas.

John Barham notes the unpopularity of free market policies

Lacalle's dream is shattered

URUGUAY is riven by a vicious factionalism that contrasts strangely with the placid, somewhat complacent, conservatism of its national character. Political backstabbing, squabbling and divisiveness have shattered President Luis Alberto Lacalle's ambition of turning the country into a free market paradise.

Mr Lacalle's determination to pursue unpopular economic policies has been stymied by his lack of charisma and political savoir faire. The opposition has successfully blocked his efforts to reform the state, privatise companies and revamp the bankrupt state pension fund. Coalition allies and even members of his National party (usually known as the Blanco party) deserted him in the first years of his government.

Uruguay's electoral system militates against disciplined political parties which could provide governments with majorities in Congress. It combines primary elections with presidential elections. Voters select rival candidates from each party and the candidate with the most votes wins. This has led to the emergence of factions which are often as hostile to each other as they are to opposing parties.

At the November 1989 election, the Blancos won less than 50 per cent of the vote and although Mr Lacalle had more votes than any other candidate, he was elected by only 22 per cent of the population. As president, he has never managed to build additional support and his positive ratings in the opinion polls rarely exceed 20 per cent.

He is unable to command a solid majority in Congress to push through his reform programme. In the Chamber of Deputies, the lower house, he can count on 27 out of 99 members. In the Senate only between four and seven of its 31 members back the government. Every item of legislation has to be negotiated with the opposition Colorado and Frente Amplio parties and rival Blanco factions.

However, Mr Lecalle can draw comfort from the fact that the opposition is equally divided. Its attempt last month to sack Mr Ignacio de Posadas, the finance minister, failed by 36 votes to 59 – although two independent Blanco deputies voted against Mr de Posadas.

Even if Mr Lacalle can negotiate in the smoke-filled rooms of Congress, he must still contend with the unyielding conservatism of the Uruguayan people. Suspicion, even resentment, of his free market policies runs deep. Uruguayans who have lived under a welfare state for almost a century are unwilling to change. Slogans like "solidarity" and "unity" still carry real weight. There is also a widely-felt perception that Uruguay's state companies are working reasonably well and therefore do not justify privatisation.

Even a sympathetic former Blanco cabinet minister comments that Mr Lacalle has made a mistake in pursuing so fundamentalist an economic policy: "Gradually people are recognising that things need to change, but the people do not accept radical solutions."

The electorate has refused to privatise five state companies

All this became brutally clear in last December's referendum: the electorate overwhelmingly rejected a government plan to privatise five state companies. The opposition took 72 per cent of the vote.

The government has still not fully recovered from its defeat. It says the opposition campaigned for a No vote for purely political reasons, rather than on the issues at stake. Mr Lacalle said: "All the propaganda was around 'vote against the government, vote against the government vote against the government.'"

Government supporters criticise the Colorados for openly attacking Mr Lacalle, while discreetly supporting him. This is because they do not wish to be identified with his policies, but realise they are necessary. The former minister says: "They want Lacalle to do all the dirty work."

Another important reason for the rejection of reform is that about one in four Uruguayans depends on the state in one way or another. About 450,000 people draw state pensions and a further 270,000 work for the government or for state companies. Politicians have traditionally used government jobs as a source of political patronage or to disguise unemployment. Some estimates put the number of surplus public employees as high as 80,000.

Organised labour, led by bank workers and public sector unions including the police, teachers and civil servants, has called eight general strikes against Mr Lacalle's government. These strikes – the last held in May – have further damaged the president's image. Efforts to reform the pension fund are foundering in the face of determined opposition by Uruguay's pensioners' associations.

Mr Lacalle's perseverance with deeply unpopular policies is remarkable. It is hardly surprising that ministers often sound frustrated and resigned. Mr Carlos Cat, the planning and budget minister and head of the Blanco party committee, comments: "We have failed to get important structural reforms that are fundamental to modernise the country, stabilise the economy and get reasonable inflation. We are frustrated, but we are not resigned. We are not going to lower our arms. We are like Don Quixote tilting at windmills. We will go on."

The next elections are scheduled for November 1994 and Mr Lacalle is due to hand over power in March 1995. The presidential campaign is already beginning to warm up. There are two leading candidates. The Colorado's Mr Julio Maria Sanguinetti, Mr Lacalle's immediate predecessor, is a strong (though undeclared) candidate. Mr Tabare Vazquez, the charismatic socialist mayor of Montevideo, has yet formally to toss his hat into the ring for the left-wing Frente Amplio.

The neatly groomed Mr Vazquez, a practising oncologist, is clearly moving to the right to broaden his appeal. He says the left has adopted conservative ideas such as the importance of low inflation, strong public finances, an efficient civil service and acceptance of private enterprise. He argues that telecommunications and other strategic state companies should never be privatised and that the state should retain a strong regulatory role to guide the market.

He says the Blancos are "also seeking this hat with a dehumanised concept that says 'we have to adjust employment, the balance of trade and debt and discusses numbers,' without looking at what is happening with the people. If the government can get a $300m Inter-American Development Bank loan to set up a financial system, why can't it get a $30-40m loan for emergency housing?"

Farming suffers from subsidised competitors, writes **John Barham**

Caught in the crossfire

IT is a familiar story. Efficient, unsubsidised fermers, most of them in the developing world, are slowly being forced out of business by less efficient but heavily subsidised competitors in the US and the EC.

Uruguay, which depends on agricultural exports for about 70 per cent of its hard currency revenues, is caught in the crossfire of the subsidies war. There is little the government can do except protest at this injustice and call for a rapid conclusion of the Uruguay round of GATT trade liberalisation talks.

As if this was not bad enough, farmers complain that an increasingly overvalued currency is further corroding their incomes – nearly all tied to dollar-denominated export prices. The Rural Association of Uruguay says the exchange rate is overvalued by about 30-35 per cent.

Farming is still the cornerstone of the economy. Agriculture may only account for about 10-12 per cent of GDP, but it is the main earner of foreign currency. Falling export revenues inevitably affect the rest of the economy.

Uruguay, which is blessed with some of the world's finest soil, grew rich on its beef and wool exports to Britain in the early years of this century. It generated the wealth which enabled Uruguay to begin setting up in 1903 what would become the world's first welfare state.

The greatest victims of adverse international conditions are sheep farmers. Wool prices have collapsed in the last four years – hitting their lowest point in real terms this century. A kilo of wool today fetches o more than $1.50 against $4 in 1989.

The crash in prices is the result of a failure of attempts to control the international market through buffer stocks and interventions, compounded by the drop in demand from big markets in China and the former Soviet Union. The result is a steady drop in production: last year Uruguay produced 82.8m kgs of wool, compared with 96.7m kgs two year earlier.

But farmers can do little to escape the pressures of falling prices. Mr Pedro Saravia, agriculture minister, says the adverse international scene hits the small and undercapitalised farmers. Larger and wealthier farms are better able to cope.

The social impact on the countryside is grim. About 70 per cent of Uruguay's farms are made up of small (by Uruguayan standards) properties of less than 1,000 hectares. Mr Saravia says: "People are always leaving the land for the city the world over, and at times of crisis this worsens."

He is quick to point out that the government is not standing idly by: "We are improving farmers' profits by liberalising the market more and reducing the incidence of the state, lowering costs by reducing taxes and inefficiency."

For example, he says the government has helped farmers by cutting taxes on fuel to 15 per cent from over 50 per cent. He hopes to eliminate the tax altogether by the end of the year.

The government also wants to do away with remaining export taxes. At present, exporters must hand over 5-10 per cent of revanues to the tax authorities. For instance, exports of boned beef are taxed at 5 per cent; before, all beef products were taxed. All taxes on wool have been removed.

There are limits to liberalisation, though. Congress and the electorate have both rejected government proposals to privatise utilities and infrastructure (although the port of Montevideo is undergoing some limited restructuring).

Farmers, of course, see things differently. Mr Urioste, president of the Rural Association, says taxes are still too high: "Farmers contribute more than other sectors. An average-sized wool or cattle farm of 1,000 hectares pays 38 per cent of its gross output in taxes." Fuel taxes may have fallen, he concedes, but farmers must still pay heavy land and sales taxes, which he estimates at $270m a year.

The outlook is not entirely grim. Agriculture grew by 7 per cent, in line with the expansion of the economy last year, thanks mainly to increased production of non-traditional crops such as rice and fruit and vegetables.

Price are now beginning to show some improvement. In Mey, wholesale farm prices – led mainly by beef and dairy products – rose 6.3 per cent, almost double the rise in the wholesale price index.

Mr Urioste says that Uruguay has become the first country to eradicate foot and mouth disease through mass cattle vaccination. This should help open new markets for Uruguay's beef exports.

Despite these encouraging signs, there is little chance that the international context will improve dramatically in the foreseeable future. Falling prices are powering a vicious circle in which declining revenues lead to a fall in investments and yields.

Uruguay needs to find an alternative use for its huge fertile prairies. Imitating Chile's widely-praised development of export markets for sophisticated fruit and vegetables is not entirely appropriate for a country with land ideal for extensive farming.

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Stephen Fidler interviews President Luis Alberto Lacalle

A market in the making

QUESTION: The Mercosur common market [bringing together Uruguay with Brazil, Argentina and Paraguay] seems to be hitting some problems, does it not?

Answer: It's the old-as-history difference between what you want and what you can do, which is the great mystery and attraction of politics.

You can say that we set a very short calendar of five years but that'a one of the virtues of the treaty of Asunción [which established Mercosur]. The deadline has provoked inside our countries a movement towards change. That's especially necessary in our country. Perhaps, we won't have a complete perfect 100 per cent common market at the deadline at the end of December 1994. But we have agreed that we will have an external tariff, which is an important goal. It will be around 20 per cent – of course with exceptions. We are very keen in Uruguay that it must be lowish to prevent a closed market that can't be touched.

Q: What about the accession of other members?

A: The treaty is a shortish treaty with 35 or aomething articles. One very specific article saya all countries are invited, hut they cannot be part of other pacts or treaties to become members of Mercosur. So at the moment no country can enter if it's a member of Andean Pact, for instance, or the North American Free Trade Agreement.

We are trying to provide the possibility of Bolivia becoming a member because it is very keen. Bolivia has her own way to the ocean through the rivers and the river Plate and our port in Palmira and the ports in Argentina: so Bolivia, like the rest of us, is leaning towards the Atlantic.

Q: What about the possibility, raised by the US administration, that Argentina, along with Chile and Venezuela, might have accession to Nafta?

A: Well, I do think that we should approach this step by step. Nafta is not a reality yet, so that'a a big if. The integration movement in Latin America must be modular and step by step. When you think of Mercosur, it is made real hy geography. You look at the rivers, at the Parana, Paraguay and Uruguay: it's a tree of rivers whose trunk is the River Plate and whose roots are in the Atlantic: that's why Mercosur makes sense and that's why the accession of Bolivia is reasonable.

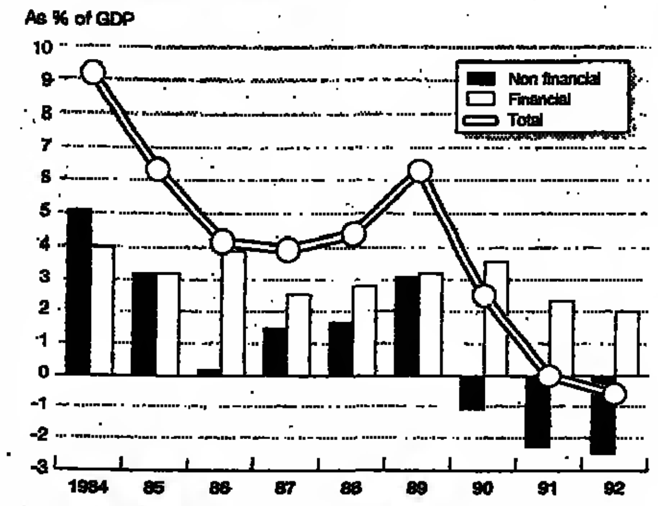
It's the same for Mexico, Canada and the United States. So I think the integration movement mustn't go to the top from the beginning – let's say all America, from Alaska to Tierra del Fuego. No, nonsense. It's very difficult to do what we're trying to do. So the idea for this generation and perhaps another one is to try and make these things work.

Q: Enthusiasm in Uruguay for Mercosur appears to be waning.

A: It's like marriage: it seems ideal before, but it's not that ideal. There are certain words that have a good press: integration is one of them. But then when you say to people in business that you must restructure, when you tell workers that some johs may he lost, when you tall young people that they must prepare themselves better in education, then people realise integration provides opportunities not certainties.

Public sector deficit

As % of GDP



Source: Central Bank

It means you must change, and change is difficult in a country like mine, as was shown when the private enterprise law – the very timid privatisation we proposed – was beaten in referendum so the signals are mixed.

Q: The modernisation of the state that we have seen in other Latin American countries nppears to be progressing slowly here.

A: Some things have gone ahead. Congress has approved the port reform law. Now, we are lowering our tariffs at the port and cutting by half the waiting time for ships. One other thing was the possihility of the utility company to buy energy from private companies.

The general law on enterprises, which included a special chapter on the telephone compaαy, had 32 articles, of which only five were contested by the referendum [in 1992]. Of course, those contested were the most important but the rest are on the books. I think are mixed feelings in the country about privatisatioα but the vote in the referendum was in one sense a vote against the government. All the propaganda was around 'vote against the government, vote against the government vote against the government'. Of course, the state enterprise sector was αever as extended here as it was in Argentina. We have in broad figures ahout 260,000 public employees, of which ahout 60,000 work for the public companies.

Q: One problem you have is the dependence of a large number of people on the state.

A: An enormous number people depend oα the state. We have about 450,000 pensioners more or less. They draw 600,000 pensions because some people get two. With public employees that makes a total of 700,000, and we have a workforce of 1.1m. The system allows people to retire very early: women at 55 after 30 years of work and men at 60. We had intended to go deep into reform. In the end, a smallish reform was made.

Q: Why do you think that in contrast to the rest of Latin America, the left continues to make gains.?

A: I think it's very difficult to explain. Here we had one of the the oldest two-party systems, going back to 1836. The country was built on the assumption that there would be two parties: the whites and the reds. The left begun to unite itself in 1971, and now they account for 30-something per cent. The two traditional partles are what the Americans would call catch-all parties; they are vertical cross sections of the entire society. This is something which the coalition of the left has a shield against: they are more class-minded.

Q: Does this mean political reform is necessary?

A: Well it'a a very peculiar system. In each eiection, there is a built-in primary. It's huilt on the assumption that before anything voters want their party to win; then inside the party they prefer candidate A against candidate B. The problem starts after the election, the morning after, because you need to build a coalition inside the party and when you are a minority in government to go to other parties. That is why it is so complex and difficult to organise.

Q: So is constitutional reform likely?

A: It's a legal possibility but not a real possibility. The constitution is very rigid when it comes to changing itself. You need very big majorities.

Q: Your party is in a minority in Congress and you can't even rely on all your party to support you. Would it be fair tu describe you as a lame duck?

A: We still have executive power and we do what we can. For example we were able to renegotiate the external deht. As soon as it requires a change in the law, then it is more difficult. And of course we secured passage of the enterprise law, then we were defeated in the referendum.

Q: What are the priorities for the remainder of your term?

A: We are fighting for a bill on the de-monopolisation of insurance and of alcohol production, which is a state mooopoly. We will keep on trying; it's always difficult because it's difficult to get consensus among members of parliament. Theα there is always the menace of a plebiscite. You only need 10,000 people to sign a petition.

Problems akin to those of Europe

Continued from page one

Mr Jose D'Elia, head of the PIT-CNT labour confederation, says President Lacalle's policies are being "dictated from the financial and political centres of power," threatening democracy and employment.

That does not mean change is not taking place. The Lacalle government has taken the country into Mercosur, the southern cone customs union which also groups Argentina, Brazil and Paraguay and is scheduled to come into force at the start of 1995.

The country is less dependent on agriculture than it was half a century ago, hut it is still a trading nation. Trade accounts for nearly two-fifths of gross domestic product, meaning it is remains highly susceptihle to protectionist policies in Europe and elsewhere and to low commodities prices.

Despite the relatively high standard of living in Uruguay, the country's 20th century economic history has been one of gentle decline. It remains apart from most of the rest of Latin America. Its prohlems of an ageing population are more akin to those of Europe or Japan than most of the countries around It.

The welfare state must break with the past

Pensioners have powerful political muscles

OLD people may not be a majority in Uruguay, hnt they they have enongh political muscle to prevent any threat to their interests.

However, unless Uruguay changes the way it cares for the aged, the pensioners will eventually bankrupt the state.

The grey panthers are powerful because they are numerous and well organised. Uruguay has a small populatiun of 3.1m people and a stagnant hirth rate, with the result that there are αow only two working people for every pensioner.

Abont 500,000 people draw a goverument pension and, unsnrprisingly, the state-run pension fund is bust.

Mr Carlos Cat, the planning and budget minister, says that last year the treasury had to pump $200m – abont 2 per cent of GDP – into the pension fund. Social security spending, which is mainly pensions, accounts for an astonishing 17 per cent of GDP, Mr Cat says.

The deficit was made worse by a 1989 plebiscite; almost 85 per cent of voters agreed with the pensioners' associations that the government should index pensions. Now, as inflation falls, pensioners are getting real rises, because indexation reflects past increases in the cost of living.

The fund's deficit has risen inexorably every year since 1989, and Mr Cat now says the deficit could hit $500m within a few years. However, nobody is saying that state pensions are generons: they are capped at seven times the minimum wage, giving a maximum $550m monthly pension.

Bnt goverument efforts to modify the pension and social security have suffered the same fate in Congress as its attempts to privatise state companies.

Politicians are not only unwilling to confront the powerful grey lobby, but also they reflect a typlcally Uruguayan conservatism. Mr Cat says the opposition once rejected the government's alarming financial calculations. After hours of dehate, he convinced the politicians to accept his data. Bnt they still refused to act.

The welfare state was boru in Uruguay in 1903 (and not in postwar Britain) when Jose Batlle y Ordonez was elected president and used the country's enormous wealth, earned from beef exports, to provide a range of pnblic social and educational services. Although Uruguay is no longer wealthy and governments have run down the welfare state over the years through underfunding, conservative Uruguayans are still loath to make a hreak with the past.

However, Professor Adela Pellegrino, a specialist in demographics at Montevideo's Universidad de la Republica, disagrees with the doomsters. Sbe says Urugnay's demographic pyramid is not as lopsided as is widely believed. in fact, Uruguay's demographics are hetter than west European countries, where over one quarter of the popnlation is aged over 65.

Over one quarter of Uruguay's population is poor, 40 per cent of children are born in poverty, and tha poor are the fastest-growing sector of the populace

She points ont that 11 per cent of the popnlation in Uruguay is over 65, and one quarter is under 15. This means that people of working age, between 16-64, make up two-thirds of the popnlation. Women make up a larger part of the working popnlation of abont 1.2m people than elsewhere in Latin America.

The pension issne is therefore something of a red herring. It is undoubtedly in need of radical reform and evasion of social security contribntions needs to be stamped ont, hnt Urugnay hardly risks collapsing under the weight of its pensioners.

Dr Pellegrino argues that the aged use their political muscle to win a disproportionate share of national income, to the detriment of the poor, or education..

As well as unfair, this has serioαs long term macroeconomic implications: the country is investing too little in improving the quality of its future working population.

Over one quarter of Uruguay'a population is poor and 40 per cent of children are born in poverty. Furthermore, the poor are the fastest-growing sector of the population. In Montevideo, a poor woman will have an average of 3.6 children; a university-educated woman will have fewer than two.

While pensions acconnt for ahont 17 per cent of gross domestic prodnct, education gets 3 per cent of GDP; a low figure even hy regional standards – and half the level in developed countries.

Dr Pellegrino suggests that reforms, soch as unifying the retirement age, would free money for spending on children, on the poor and on young mothers. Not only would this be fairer, but also it would increase the hirth rate and rednce social inequalities. In addition, the more ednCated and skilled people are, the likelier they are to eαter the formal economy and contribnte to the pension fund.

However, Dr Pellegrino says that emigration – not ageing – is probahly Uruguay's most serious demographic problem.

In the politically tronhled 1970s about 11 per cent of the popnlation emigrated, althongh emigration has since fallen. There is no precise data on current migration flows, bnt one third of yonths in Montevideo say they would rather live elsewhere.

Emigration is bad because it accentuates the proportion of the aged in the population and rednces potential economic growth, becaαse emigrants nsnally have above average skills. It is also costly, because Uruguay invests in emigrants' edncatioα hut does not benefit from their labour.

The brain drain is particularly damaging for a small country like Uruguay: the emigration of 50 scientists is a significaαt loss.

John Barham

WORLD STOCK MARKETS

AUSTRIA [illegible]

BELGIUM/LUXEMBOURG [illegible]

DENMARK [illegible]

FINLAND [illegible]

FRANCE [illegible]

GERMANY [illegible]

GERMANY (continued) [illegible]

ITALY [illegible]

NETHERLANDS [illegible]

NETHERLANDS (continued) [illegible]

NORWAY [illegible]

SPAIN [illegible]

SWEDEN [illegible]

SWITZERLAND [illegible]

SOUTH AFRICA [illegible]

JAPAN [illegible]

AUSTRALIA [illegible]

AUSTRALIA (continued) [illegible]

HONG KONG [illegible]

MALAYSIA [illegible]

SINGAPORE [illegible]

Prices supplied by Telekurs

CANADA

TORONTO

4 pm close June 4

Quotations in cents unless marked $

[illegible]

Sales	Stock	High	Low	Close	Chg
29800	CnPcForest	$21¼	20⅞	21	
205890	Cara Op	430	420	420	
300200	Cascades	$6	5⅞	5⅞	-⅛
151	Celanese	$47	47	47	
181	CntCpital	31	31	31	
241825	Cinepx Odn	u425	405	420	+10
1800	Cdn Fd A	$6⅝	6⅜	6½	+⅛
71281	Cominco	$15¾	15½	15⅝	+⅛
179600	Coputalog	315	300	305	-10
19770	Corel Sys	$20	19⅝	20	+¼
2900	CoscanDev	145	145	145	
26242	CrownX A	360	350	355	

[illegible]

Sales	Stock	High	Low	Close	Chg
383343	Labatt	$22⅜	22⅛	22¼	+⅛
266887	Lac Minls	$12½	12⅛	12⅜	
10	Lafarge	$21¾	21¾	21¾	+⅛
800	Laidlaw A	$10⅜	10⅛	10⅛	-⅛
269532	Laidlaw B	$10¾	10	10⅛	-⅛
100	Laurent Bk	$17⅛	17⅛	17⅛	+¼
4500	Lassonde Sp I	u$6½	6½	6½	+⅛
377558	Loewen Mar	$9¾	9⅝	9¾	
30650	Loblaw	$23	22¾	22⅞	+¼

[illegible]

Sales	Stock	High	Low	Close	Chg
300	Rothmans	$100	100	100	
267450	RoyalBkCan	$27⅝	27⅛	27¼	-¼
232065	Ryl Oak Mn	$8½	7½	7½	-¼
249820	RylTrustco	40	38	39½	
8321	StLawrCm A	$7¼	7½	7½	-⅛
27820	Sceptrefs	u$12⅞	12¾	12⅞	+⅛
450	ScottPaper	$11½	11⅛	11½	+½
10	Scotts Hos	$9	9	9	+⅛
456088	Seagram Co	$34½	34	34⅛	+¼
35335	Sears Can	$8	7⅞	8	+⅛

[illegible]

Sales	Stock	High	Low	Close	Chg
26600	Maclean Hd	$12	11¾	12	+¼
279344	NatBk Cdn	$10⅝	10⅜	10⅝	+½
2220	Quebecor A	$19¼	19⅛	19¼	+⅛
13920	Teleglobe	$17½	17¼	17¼	-¼
17954	Unigesco	$7½	7¼	7½	+⅛
18749	Videotron	$22⅞	22½	22⅝	+⅛

Total Sales 27,908,670 shares

†- No voting rights or restricted voting rights

MONTREAL

4 pm close June 4

[illegible]

INDICES

NEW YORK

DOW JONES	June 4	June 3	June 2	June 1	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Industrials	3545.14	3544.87	3553.45	3552.34	3554.83 (27/5)	3241.95 (20/1)	3554.83 (27/5/93)	41.22 (2/7/32)
Home Bonds	107.53	107.52	107.37	107.26	107.67 (7/5)	103.43 (7/1)	107.67 (7/5/93)	54.99 (1/10/81)
Transport	1574.29	1577.44	1604.33	1602.65	1623.72 (16/5)	1453.64 (4/1)	1623.72 (16/5/93)	12.32 (8/7/32)
Utilities	241.11	241.68	241.74	240.36	247.68 (15/4)	217.74 (5/1)	247.68 (15/4/93)	10.50 (8/4/32)

DJ Ind. Day's High 3563.13 (3565.52) Low 3516.63 (3516.98) (Theoretical♦)
Day's High 3545.70 (3552.45) Low 3532.47 (3537.36) (Actual♦)

STANDARD AND POOR'S

	June 4	June 3	June 2	June 1	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	450.06	452.49	453.85	453.93	456.33 (10/3)	429.05 (8/1)	456.33 (10/3/93)	4.40 (1/6/32)
Industrials¶	520.49	523.01	524.71	524.68	524.99 (10/3)	496.48 (25/4)	524.99 (10/3/93)	3.62 (21/6/32)
Financial	42.58	43.11	43.27	43.32	46.67 (13/4)	39.03 (8/1)	46.67 (15/4/93)	8.64 (1/10/74)
NYSE Composite	248.22	249.58	250.27	250.28	251.36 (10/3)	235.21 (8/1)	251.36 (10/3/93)	4.46 (28/4/42)
Amex Mkt. Value	440.95	440.91	439.87	432.60	443.95 (4/5)	395.84 (3/1)	443.95 (4/5/93)	29.31 (9/12/72)
NASDAQ Composite	702.01	708.22	705.88	704.28	732.85 (4/2)	645.87 (25/4)	732.85 (4/2/93)	54.87 (31/10/72)

	May 28	May 21	May 14	year ago (approx.)
Dow Industrial Div. Yield	2.90	2.94	2.57	2.98

	Jun 2	May 26	May 19	year ago (approx.)
S & P Industrial div. yield	2.46	2.46	2.49	2.65
S & P Ind. P/E ratio	25.90	25.93	26.63	22.77

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
LTV Corp	7,454,200	⅞	—
Allstate	6,321,700	28¾	-⅝
Wal-Mart Strs	4,835,700	26¾	-¼
Bally	4,005,000	11½	+1⅛
PNC Bank	3,837,800	30⅞	-1½
General Motors	2,840,200	41½	+½
Telefonos	2,618,800	45⅞	-⅜
Reading Ba	2,546,300	8¾	-¼
Ford Motor	2,170,600	56⅛	-¼
IBM	1,876,100	54	+⅛

TRADING ACTIVITY

† Volume (Millions)	June 4	June 3	June 2
New York SE	224.233	272.883	287.763
Amex	20.071	19.565	23.017
NASDAQ	(a)	250.076	274.320
NYSE			
Issues Traded	2,515	2,524	2,524
Rises	729	882	999
Falls	1,199	982	891
Unchanged	587	660	634
New Highs	74	39	133
New Lows	23	19	24

CANADA

TORONTO	June 4	June 3	June 2	June 1	1993 HIGH	1993 LOW
Metals & Minerals	2918.30	2898.00	2902.72	2907.15	2972.25 (5/2)	2743.31 (21/1)
Composite	3884.60	3875.00	3859.80	3856.90	3884.60 (4/6)	3275.80 (21/1)
MONTREAL Portfolio	1908.82	1901.36	1897.16	1897.65	1915.71 (28/5)	1720.97 (21/1)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¶ Subject to official recalculation.

	June 4	June 3	June 2	June 1	1993 HIGH	1993 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1741.0	1741.0	1741.9	1733.9	1769.40 (28/5)	1435.00 (13/1)
All Mining (1/1/80)	773.4	786.0	772.4	781.9	801.90 (28/5)	584.70 (13/1)
AUSTRIA						
Credit Aktien (30/12/84)	336.86	333.75	331.91	333.91	357.78 (8/3)	300.26 (14/1)
Traded Index (2/1/91)	815.77	805.63	800.03	793.94	862.17 (3/3)	712.06 (15/1)
BELGIUM						
BEL20 (1/1/91)	1184.32	1187.97	1182.86	1192.79	1209.11 (7/5)	1125.45 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	294.85	294.83	296.11	296.55	302.06 (14/5)	251.90 (4/1)
FINLAND						
HEX General (28/12/90)	1165.0	1170.2	1155.0	1169.9	1248.20 (21/5)	843.15 (22/1)
FRANCE						
CAC General (31/12/87)	512.58	512.82	513.51	513.08	547.37 (30/3)	471.24 (13/1)
CAC 40 (31/12/87)	1859.68	1867.92	1875.84	1872.80	2035.91 (30/3)	1772.21 (25/1)
GERMANY						
FAZ Aktien (31/12/58)	643.13	639.14	637.69	637.71	673.70 (10/3)	538.92 (14/1)
Commerzbank (1/12/53)	1824.00	1892.2	1807.1	1807.3	1906.10 (10/3)	1694.30 (14/1)
DAX (30/12/87)	1637.95	1629.82	1625.21	1619.89	1717.43 (11/3)	1516.53 (13/1)
HONG KONG						
Hang Seng Bank (31/7/64)	7157.49	7155.29	7322.23	7375.31	7447.24 (27/5)	5437.80 (4/1)
IRELAND						
ISEQ Overall (4/1/88)	1570.31	1556.16	1553.94	1553.89	1591.74 (18/4)	1167.19 (11/1)
ITALY						
Banca Com. Ital. (1972)	531.42	538.18	541.80	545.21	559.17 (20/5)	446.33 (5/1)
MIB General (4/1/75)	1174.0	1189.0	1197.0	1214.0	1238.00 (20/5)	982.00 (11/1)
JAPAN						
Nikkei (16/5/49)	20862.24	21076.00	20631.70	20591.41	21076.00 (3/6)	16287.45 (25/1)
Tokyo SE (Topix) (4/1/68)	1671.70	1676.13	1645.46	1637.25	1676.13 (3/6)	1250.06 (25/1)
2nd Section (4/1/68)	2383.70	2369.26	2355.54	2359.28	2383.70 (4/6)	1651.72 (25/1)
MALAYSIA						
KLSE Composite (4/4/86)	732.15	735.06	741.27	748.06	741.27 (2/6)	614.02 (13/1)
NETHERLANDS						
CBS TII Rtn Gen (End 1983)	330.6	330.8	330.5	328.6	335.60 (27/5)	295.70 (4/1)
CBS All Shr (End 1983)	217.1	217.1	217.1	216.4	223.90 (18/4)	198.60 (13/1)
NORWAY						
Oslo SE (Ind) (2/1/83)	793.13	798.44	794.81	791.65	827.94 (6/5)	663.95 (27/1)
PHILIPPINES						
Manila Comp (2/1/85)	1587.29	1581.15	1572.56	1580.26	1654.39 (5/5)	1270.58 (4/1)
SINGAPORE						
SES All-Singapore (2/4/75)	464.66	462.33	467.91	(c)	468.48 (31/5)	294.10 (13/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1796.0¥	1751.0	1689.0	1656.0	1885.00 (24/5)	775.00 (5/1)
JSE Industrial (28/9/78)	4530.0¥	4514.0	4504.0	4523.0	4645.00 (10/3)	4253.00 (18/5)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	769.15	763.15	758.81	751.97	763.15 (3/6)	665.93 (6/3)
SPAIN						
Madrid SE (30/12/85)	261.24	259.95	259.59	256.56	262.58 (27/5)	215.60 (4/1)
SWEDEN						
Affarsvarlden Gen. (1/2/37)	1089.20	1091.3	1089.9	1082.5	1098.20 (27/5)	879.10 (22/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	1013.6	1005.8	1001.5	999.9	1013.50 (4/5)	904.60 (11/1)
SBC General (1/4/87)	780.1	773.7	770.1	768.4	780.10 (4/6)	678.70 (11/1)
TAIWAN**						
Weighted Price (30/6/66)	4391.50	4342.73	4302.24	4318.43	5013.28 (7/4)	3038.43 (3/1)
THAILAND						
Bangkok SET (30/4/75)	(c)	832.08	820.90	818.84	988.44 (25/1)	818.54 (1/6)
WORLD						
M.S. Capital Intl.(1/1/70) $	572.6*	576.3	573.9	574.6	576.30 (4/6)	488.00 (13/1)
Euro Top-100 (26/6/90)	968.37	971.72	970.01	971.20	979.86 (27/5)	862.73 (13/1)

**Saturday May 29: Taiwan Weighted Price: 4,288.37, Korea Comp Ex. 738.75.
¥ Subject to official recalculation. *Calculated at 15.00 GMT.

Base values of all indices are 100 except Austria Traded, BEL20, HEX Gen., MIB Gen., CAC40, Euro Top-100, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 25 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable

TOKYO - Most Active Stocks

Friday, June 4, 1993

	Stocks Traded	Closing Prices	Change on day
Nippon Steel	15.6m	411	+5
Hitachi Zosen	10.3m	830	+10
Nikko Kyodo	8.1m	679	+10
Ricoh Co	8.0m	821	+20
Sumitomo Mtl Ind	7.9m	357	+6
NKK	7.5m	340	+2
Fujitsu	6.5m	786	-15
NEC Corp	6.0m	1,040	-20
Mitsubishi Hvy	5.2m	717	-10
Jpn Mtl & Chem	4.2m	830	+19

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial (0891 or 0336) 430000, enter 4 and key in the five digit code listed below. Calls are charged at 36p/minute cheap rate and 48p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (071) 873 4378.

AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set at the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation,
Centre Point,
103 New Oxford Street, London WC1A 1QH
Tel: 071-379-0444.

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	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-Line
Smith & Williamson Unit Tst Mgrs (1600)F						
1 Riding House St, London W1A3AS.					07	1-637 5377
S & W American ♣	5	260.0	260.8	273.5	0.72	[illegible]
S & W Capital	5	117.5	111.5	120.0	1.70	[illegible]
S & W Cash ♣	0	100.92	100.92	100.92	5.35	[illegible]
S & W European	5	113.1	112.1	118.8	1.31	[illegible]
S & W Far Eastern	5	147.4	149.8	157.7	0.00	[illegible]
S & W Growth	5	128.1	127.8	135.2	1.27	[illegible]
S & W Income	5	112.2	113.4	113.8	4.82	[illegible]
S & W Mngmnt	5	124.0	124.0	131.0	1.59	[illegible]
S & W Smlr Cos	5	315.3	322.2	340.8	0.50	[illegible]
S & W Thoroughbred	5	143.4	143.4	153.9	1.50	[illegible]

For Societe Generale Touche Remnant see Henderson

	Init Chrge	Bid Price	Offer Price	Yield Gr's	City-Line
Sovereign Unit Tst Mngrs Ltd (1000)F					
12 Christchurch Rd, Bournemouth					0202 298422
Cash	1	49.72	50.22	5.3	[illegible]
Cntrld Priorities	5½	55.67	59.73	7.8	[illegible]
Ethical	5½	53.28	56.65	3.9	[illegible]
European Growth	5½	56.78	60.54	3.1	[illegible]
Income	5½	62.08	55.55	5.7	[illegible]
Intl Growth	5½	79.29	84.51	3.0	[illegible]
Managed	5½	70.11	74.78	3.6	[illegible]
UK Growth	5½	56.41	60.17	4.4	[illegible]

	Bid Price	Offer Price	Yield Gross	City-Line
Robert Fleming Asset Mngmt Ltd				
Am Exempt	£613.45	622.80	1.50	40456
Gen Exempt	£162.80	168.20	3.65	40457
Jap Exempt	£619.19	630.14	0.86	40458
Pacific Exempt	£154.54	159.20	1.37	40898
Cont'l Euro Exempt	£116.25	120.51	2.54	47874
Foreign & Colonial Unit Management Ltd				
Balanced Acc May 25	182.6	190.3	3.58	43441
Balanced Inc May 25	161.3	168.8	3.58	43443
Latin American Acc May 25	97.16	98.40	1.68	43444
Funds in Court*				
Capital May 14	553.83	557.98	3.7	40505
Gross May 14	208.34	211.08	2.60	40506
High Yield May 14	334.70	337.35	7.71	40507

* Restricted to monies under Court control

	Bid Price	Offer Price	Yield Gross	City-Line
Govett (John) Unit Mngmt Ltd				
Managed Exempt	106.61	112.75	3.33	43446
Henderson Unit Trust Management Ltd				
Pensions Mngd	61.39	62.63	2.80	40676

INSURANCES

OTHER UK UNIT TRUSTS

هكذا من الأصل

FT MANAGED FUNDS SERVICE

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Providence Capital Life Assc. Co Ltd - Contd.

Alpha Pension Funds

	Bid Price	Offer Price	Yield Gross	City-Line
UK Alpha	228.8		-	47229
US Alpha	119.6		-	47230
Gilt Alpha	85.7		-	47231
Gold Alpha	87.8		-	47232
Japan Alpha	45.8		-	47233
US Dollar Alpha	73.6		-	47234
Yen Alpha	79.9		-	47235
DM Alpha	89.9		-	47236
European Alpha	95.8		-	47237

Provident Life Assoc Ltd

Provident Way, Basingstoke RG21 2SZ 0256 470707

Gold Range (Pensions)

	Bid Price	Offer Price	Yield Gross	City-Line
Discretionary Fund	157.4		-	46412

Provident Mutual Life Assc. Assn.

6 Hills Way Stevenage Herts SG1 2ST 0438 732009

	Bid Price	Offer Price	Yield Gross	City-Line
Managed Ord	415.6	437.5	-	43484
Managed Init	294.3	309.8	-	43485
Equity Ord	621.4	654.1	-	43486
Equity Init	440.0	463.2	-	43487
Index Linked Gilt Ord	193.8	204.0	-	43488
Index Linked Gilt Init	143.4	150.9	-	43489
Overseas Equity Ord	335.0	352.6	-	43490
Overseas Equity Init	237.2	249.7	-	43491
Property Ord	220.3	231.9	-	43492
Property Init	160.3	168.7	-	43493
Fixed Interest Ord	258.2	271.8	-	43494
Fixed Interest Init	183.9	192.5	-	43495
Deposit Ord	196.4	206.7	-	43496
Deposit Init	139.1	146.4	-	43497

Pension Funds

	Bid Price	Offer Price	Yield Gross	City-Line
Managed Ord	547.9	576.7	-	43498
Managed Init	389.0	409.4	-	43499
Equity Ord	846.5	891.1	-	43500
Equity Init	599.4	630.9	-	43501
Pen Ind Lkd Gilt Ord	[illegible]	232.2	-	43502
Pen Ind Lkd Gilt Init	163.2	171.8	-	43503
Overseas Equity Ord	389.1	409.6	-	43504
Overseas Equity Init	275.5	290.0	-	43505
Property Ord	288.6	303.8	-	43506

Scottish Amicable

150 St Vincent St, Glasgow 041-248 2323

Life Funds (First Series)

	Bid Price	Offer Price	Yield Gross	City-Line
Managed	402.9	424.2	-	43861
Equity	502.4	528.9	-	43858
Property	239.4	252.0	-	43860
International	401.0	422.2	-	43857
Japanese	117.8	124.1	-	46257
Asia Pacific	133.7	140.6	-	46254
European	107.6	113.3	-	46255
American	142.1	149.6	-	46253
Fixed Interest	332.4	349.9	-	43856
Index-Linked Gilt	185.4	195.2	-	43860
Cash	219.6	231.4	-	43855

Life Funds (Second Series)

	Bid Price	Offer Price	Yield Gross	City-Line
Managed	112.1	118.1	-	47103
Equity	108.0	113.7	-	47067
Property	100.6	105.9	-	47107
International	123.9	130.5	-	47101
Japanese	118.9	124.3	-	47102
Asia Pacific	135.0	142.2	-	47059
European	106.6	112.3	-	47070
American	133.9	140.2	-	47060
Fixed Interest	125.0	131.6	-	47091
Index-Linked Gilt	118.6	124.8	-	47150
Cash	109.0	114.8	-	47061

Pension Funds

	Bid Price	Offer Price	Yield Gross	City-Line
Building Society	173.1	182.3	-	43874
Managed (Init)	233.5	245.8	-	43872
Managed (Acc)	461.8	486.2	-	43873
Equity (Init)	261.6	275.4	-	43882
Equity (Acc)	517.5	544.8	-	43883
Property (Init)	142.7	150.3	-	43868
Property (Acc)	282.4	297.3	-	43869
International (Init)	238.3	250.9	-	43866
International (Acc)	471.3	496.2	-	43867
Fixed Interest (Init)	222.8	234.6	-	43864
Fixed Interest (Acc)	440.8	464.1	-	43865
Cash (Init)	154.0	162.2	-	43870
Cash (Acc)	304.7	320.8	-	43871

Others

	Bid Price	Offer Price	Yield Gross	City-Line
Capital Guarantee Bond	98.8	100.6	-	44039

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial (0891 or 0336) 430000, enter 4 and key in the five digit code listed below. Calls are charged at 36p/minute cheap rate and 48p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (071) 873 4378.

	Init Charge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-Line
Hill Samuel Fund Mgrs – Contd.						
International Currency Fund						
Sterling Managed	3½	£32.55	32.55	33.73	-	[illegible]
US Dollar Managed	3½	$31.25	31.25	32.38	-	[illegible]
Sterling	0	£29.45	29.45	29.45	4.82	[illegible]
US Dollar	0	$40.05	40.05	40.05	1.75	[illegible]
Deutschmark	0	[illegible]	69.81	69.81	[illegible]	[illegible]
Japanese Yen	0	Y3142	3142	3142	1.67	[illegible]
Swiss Franc	0	[illegible]	52.45	52.45	3.58	[illegible]
Irish Punts	0	[illegible]	25.43	25.43	[illegible]	[illegible]
Lloyds Bank (CI) U/T Mgrs.						
PO Box 195, St Helier, Jersey 0534 284242						
Lloyds Tst. Gilt	3½	£10.190	10.210	10.570	7.57	[illegible]
Dealing daily						
Midland Bank Fund Managers (Jersey) Ltd						
PO Box 26, St Helier, Jersey 0534 606000						
Prudential Fund Managers (Jersey) Ltd						
PO Box 103, St Helier, Jersey 0534 70009						
Royal Trust Jsy Fd Mngt Ltd (1400)F						
PO Box 428, St Helier, Jersey 0534 27441						
Standard Bank Fund Mngmt (Jersey) Ltd						
PO Box 583, St Helier, Jersey CI 0534 67557						
TSB Trust Funds (CI)						
PO Box 538, St Helier, Jersey 0534 503002						

Bank Von Ernst & Cie AG
Marktgasse 63/65, 3001 Berne, Switzerland 21224051

Banque Scandinave a Luxembourg SA
10 Boulevard Royal, L-2449, Luxembourg

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

هكذا من الأصل

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGE AND MONEY MARKETS

Focus on vulnerable post-election peseta

Attention in financial markets will focus on Spain this week with analysts anxious to see how the beleaguered peseta reacts to the outcome of yesterday's general election and whether the authorities will be able to cut interest rates further, *writes Gillian Tett.*

There are fears that the peseta, which has undergone a cumulative 20 per cent devaluation over the last 10 months, could come under renewed pressure.

UK clearing bank base lending rate 6 per cent from January 26, 1993

"Whoever wins the election, the peseta will be very vulnerable to speculative attack," said Mr Avinash Persaud, economist at UBS in London.

With Spanish unemployment running at 21.7 per cent during the first quarter of this year, the new government "will face enormous pressure for a swift reduction in interest rates", said Mr Persaud. Some analysts fear that any strife for the peseta could undermine the lira in Italy, which has regional elections this week.

After the dollar's 3-pfennig rise against the D-Mark in Friday's trading, the markets will be watching hotb currencies closely this week, to see whether their faith in the US economic recovery – and their fears about the slowdown in Germany – are justified.

The US producer price index figures for May, due on Friday and expected to show a 0.2 per cent increase on the month, should give reassurance that inflationary pressures are under control after last week's strong US employment data.

Meanwhile, in spite of the recent softening of the D-Mark, and the refusal of the Bundesbank to reduce rates last week, there is growing expectation that the Bundesbank might finally cut its repurchase rate this week.

£ IN NEW YORK

June 4	Close	Previous Close
£ Spot	1.5085-1.5095	1.5430 1.5440
1 month	0.35-0.34pm	0.35 0.34pm
3 months	1.00-0.98pm	1.01 0.99pm
12 months	3.15-3.08pm	3.20 3.12pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	June 4	Previous
8.30 am	79.6	79.5
9.00 am	79.6	79.6
10.00 am	79.5	79.5
11.00 am	79.6	79.6
Noon	79.5	79.6
1.00 pm	79.5	79.6
2.00 pm	79.5	79.6
3.00 pm	79.4	79.6
4.00 pm	79.4	79.5

CURRENCY MOVEMENTS

Jun 4	Bank of England Index	Morgan Guaranty Changes %
Sterling	79.4	-30.05
U.S. Dollar	64.6	-14.50
Canadian Dollar	93.6	-8.18
Austrian Schilling	110.6	+15.82
Belgian Franc	115.2	+1.47
Danish Krone	117.4	+11.74
D-Mark	123.4	+30.78
Swiss Franc	111.8	+20.95
Dutch Guilder	118.9	+20.77
French Franc	109.5	-6.80
Lira	82.7	-32.61
Yen	178.1	+117.35
Peseta	86.6	-31.56

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100). *Rates are for June 3

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

U.S. TREASURY BILLS (IMM) $1m points of 100%

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BRITISH POUND (IMM) $ per £

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SWISS FRANC (IMM) SFr 125,000 $ per SFr

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per £1)

Strike Price	Calls				Puts			
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER CURRENCIES

Jun 4	£	$
Argentina	1.5210 - 1.5225	0.9985 - 0.9995
Australia	2.2525 - 2.2545	1.4795 - 1.4805
Brazil	66859.5 - 66861.5	43900.0 - 43901.0
Finland	8.3485 - 8.3765	5.4805 - 5.5005
Greece	332.130 - 338.770	215.450 - 218.750
Hong Kong	11.7595 - 11.7780	7.7245 - 7.7255
Iran	2502.00 - 2504.00	1622.00 - 1624.00
Korea(Sth)	1234.60 - 1254.50	800.50 - 808.90
[illegible]	[illegible]	[illegible]

CURRENCY RATES

Jun 4	Bank rate %	Special Drawing Rights	European Currency Unit
[illegible]	[illegible]	[illegible]	[illegible]

JAPANESE YEN (IMM) Y12.5m $ per Y100

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DEUTSCHE MARK (IMM) DM125,000 $ per DM

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

THREE-MONTH EURODOLLAR (IMM) $1m points of 100%

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STANDARD & POORS 500 INDEX $500 times index

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

POUND SPOT - FORWARD AGAINST THE POUND

Jun 4	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.5130 - 1.5470	1.5175 - 1.5185	0.36-0.34cpm	2.77	0.98-0.95pm	2.54
Canada	1.9480 - 1.9680	1.9480 - 1.9490	0.23-0.13cpm	1.11	0.45-0.26pm	0.73
Netherlands	2.7600 - 2.7725	2.7800 - 2.7700	¼-⅜cdis	-1.36	¾-1dis	-1.27
Belgium	50.50 - 50.80	50.55 - 50.65	3-8cdis	-1.30	13-17dis	-1.19
Denmark	9.3700 - 9.5075	9.4325 - 9.4425	2⅛-3⅜oredis	-3.86	6⅞-7⅞dis	-2.97
Ireland	1.0095 - 1.0145	1.0135 - 1.0145	0.08-0.12cdis	-1.24	0.32-0.37dis	-1.36
Germany	2.4600 - 2.4725	2.4600 - 2.4650	⅜-½pfdis	-2.13	1-1¼dis	-1.83
Portugal	234.50 - 238.25	236.50 - 237.50	160-172cdis	-8.41	458-501dis	-8.10
Spain	191.50 - 194.25	192.55 - 192.85	86-104cdis	-5.92	251-277dis	-5.48
Italy	2245.25 - 2256.75	2247.75 - 2248.75	8-10liredis	-4.80	25-28dis	-4.00
Norway	10.4200 - 10.5350	10.4225 - 10.4325	⅝-2oredis	-1.51	3-4½dis	-1.44
France	8.2950 - 8.3250	8.2975 - 8.3075	1¼-1⅝cdis	-2.08	3½-4dis	-1.81
Sweden	11.0350 - 11.1158	11.0775 - 11.0875	1⅝-3oredis	-2.50	6¼-7½dis	-2.39
Japan	163.00 - 165.50	163.00 - 164.00	½-⅜ypm	3.21	1⅛-1pm	2.75
Austria	17.17 - 17.48	17.36 - 17.39	1⅛-2¼grodis	-1.17	3¾-5⅞dis	-1.11
Switzerland	2.2000 - 2.2200	2.2100 - 2.2200	¼-parcpm	0.68	½-¼pm	0.68
Ecu	1.2600 - 1.2665	1.2600 - 1.2610	0.19-0.23cdis	-2.00	0.63-0.58dis	-1.78

Commercial rates taken towards the end of London trading. Six-month forward dollar 1.72-1.67pm. 12 Month 2.90-2.80pm.

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Jun 4	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.5130 - 1.5470	1.5175 - 1.5185	0.36-0.34cpm	2.77	0.98-0.95pm	2.54
Ireland†	1.5000 - 1.5275	1.5000 - 1.5010	0.54-0.51cpm	4.20	1.55-1.50pm	4.07
Canada	1.2755 - 1.2785	1.2780 - 1.2790	0.16-0.19cdis	-1.64	0.52-0.57dis	-1.71
Netherlands	1.7885 - 1.8235	1.8215 - 1.8225	0.58-0.59cdis	-3.79	1.60-1.65dis	-3.57
Belgium	32.80 - 33.45	33.30 - 33.40	10.00-11.00cdis	-3.78	29.00-32.00dis	-3.65
Denmark	6.1075 - 6.2250	6.2150 - 6.2200	2.75-3.35oredis	-5.89	8.00-9.10dis	-5.50
Germany	1.5945 - 1.6240	1.6220 - 1.6230	0.62-0.63cdis	-4.62	1.76-1.78dis	-4.36
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Commercial rates taken towards the end of London trading. † UK, Ireland and Ecu are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EXCHANGE CROSS RATES

Jun 4	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C$	B Fr.	Pta	Ecu
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Peseta per 100.

EURO-CURRENCY INTEREST RATES

Jun 4	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT LONDON INTERBANK FIXING

(11.00 a.m. June 4) 3 months US dollars — bid 3⅛ offer 3¼; 6 months US Dollars — bid 3⅜ offer 3½

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK

		Treasury Bills and Bonds	
[illegible]	[illegible]	[illegible]	[illegible]

Jun 4	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Paris	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Zurich	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Amsterdam	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tokyo	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Milan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brussels	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dublin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON MONEY RATES

Jun 4	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1993 High	1993 Low	Stock	Closing Price p	+or-	Net Div.	Times Covered	Gross Yield	P/E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1993 High	1993 Low	Stock	Closing Price p	+or-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

	Jun 4	May 28		Jun 4	May 28
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

	Jun 4	change		Jun 4	change
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BASE LENDING RATES

Adam & Company 6	Cyprus Popular Bank 6	NatWestminster 6
Allied Trust Bank 6	Duncan Lawrie 6	Nykredit Mortgage Bnk 6.5
AIB Bank 6	Equatorial Bank plc 6	Rea Brothers 6
Henry Ansbacher 6	Exeter Bank Limited 7	Roxburghe Bank Ltd 6
B & C Merchant Bank 13	Financial & Gen Bank 7	Royal Bk of Scotland 6
Bank of Baroda 6	Robert Fleming & Co 6	Smith & Williamson Secs 6
Banco Bilbao Vizcaya 6	Girobank 6	Standard Chartered 6
Bank of Cyprus 6	Guinness Mahon 6	TSB 6
Bank of Ireland 6	Habib Bank AG Zurich 6	Unibank plc 6
Bank of India 6	Hambros Bank 6	United Bk of Kuwait 6
Bank of Scotland 6	Heritable & Gen Inv Bk 6	Unity Trust Bank Plc 6
Barclays Bank 6	Hill Samuel 6	Western Trust 6
Brit Bk of Mid East 6	C. Hoare & Co 6	Whiteaway Laidlaw 6
Brown Shipley 6	Hongkong & Shanghai 6	Wimbledon & Sth West 7
CL Bank Nederland 6	Julian Hodge Bank 6	Yorkshire Bank 6
Citibank NA 6	Leopold Joseph & Sons 6	
City Merchants Bank 6	Lloyds Bank 6	Members of British Merchant Banking & Securities Houses Association
Clydesdale Bank 6	Meghraj Bank Ltd 6	
The Co-operative Bank 6	McDonnell Douglas Bk 6	
Coutts & Co 6	Midland Bank 6	
Credit Lyonnais 6	Mount Banking 6	

STOCK INDICES

	June 4	June 3	June 2	June 1	May 28	May 27	1993 High	1993 Low	Since Compilation High	Since Compilation Low
FT-SE 100	2829.8	2852.8	2863.0	2849.2	2840.7	2855.3	2957.3	2737.6	2957.3	986.9
FT-SE Mid 250	3175.1	3183.0	3161.4	3166.3	3166.8	3170.5	3191.4	2878.3	3191.4	1379.4
FT-SE-A 350	1413.5	1423.2	1427.8	1420.0	1416.7	1422.7	1457.1	1348.7	1457.1	664.5
FT-A All-Share	1400.00	1409.32	1413.55	1406.15	1402.64	1409.17	1433.22	1335.13	1433.22	61.92
FT-SE Eurotrack 100	1159.95	1160.81	1155.78	1153.22	1161.56	1165.01	1187.52	1093.02	1200.27	900.45
FT-SE Eurotrack 200	1214.21	1217.26	1215.58	1215.43	1224.85	1231.31	1234.50	1144.79	1248.79	938.52
FT Ordinary	2219.1	2226.4	2230.4	2211.7	2209.6	2211.2	2299.8	2124.7	2299.8	49.4
FT Government Secs.	95.15	95.11	95.04	94.84	94.56	95.00	96.04	93.29	127.40	49.18
FT Fixed Interest	111.71	111.53	111.52	111.13	111.40	111.54	113.65	108.67	113.83	50.53
FT Gold Mines	192.2	187.4	192.5	200.6	186.4	187.1	202.7	80.0	734.7	43.5

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY JUNE 4 1993 US Dollar Index	% chg since 31/12/92	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/92	Gross Div. Yield	THURSDAY JUNE 3 1993 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1993 High	1993 Low	Year ago (approx)
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local). Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

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Constituent change during the week ending 4/6/93: Additions: Zeneca (UK). Constituent changes with effect 7/6/93: Deletions: Nestle (Br. & P.C.) (Switzerland).

The Following recalculations took place during May: Ireland (3/5/93), USA (28/5/93) and Switzerland (31/5/93).

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]	[illegible]	[illegible]	[illegible]

Money Market Bank Accounts

[illegible]	[illegible]	[illegible]	[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

[illegible]	[illegible]	[illegible]	[illegible]

OTHER FIXED INTEREST

[illegible]	[illegible]	[illegible]	[illegible]

Continued on next page

LONDON SHARE SERVICE

AMERICANS

	Notes	Price $	Wk% ch'nge	Div gross	Dividends paid	Last xd	City line
Abbott Labs		17½xd	—	68c	FeMyAuNv	13.4	1503
Allegheny & W	♥	617p	10.8	30c	–	–	–
Amdahl		361p	2.6	5c	NvFeJoAu	31.1	–
Amer Cyanamid		34½	4.2	$1.65	MrJeSeDe	4.3	–
Amer Express		16⅝xd	0.5	$1.00	FeMyAuNv	30.3	1594
Amer T & T		39⅝xd	0.6	$1.32	FeMyAuNv	29.12	1597
Ameritech		48	3.2	$3.68	FeMyAuNv	28.3	–
BankAmerica		28⅞xd	-1.5	$1.40	MrJeSeDe	10.5	1744
Bankers NY		46⅞xd	0.5	$3.12	ApJyOcJa	24.12	1745
Bell Atlantic		36	2.9	$2.68	FeMyAuNv	4.7	–
BellSouth		35¼	5.3	$2.76	FeMyAuNv	5.4	–
Bethlehem Steel	♥	12⅛xd	-6.7	–	MrJeSeDe	6.2	1821
Bowater		7498pxd	5.3	80c	OcJaApJy	9.3	1884
CPC		27½xd	-1.1	$1.28	JaApJyOc	26.3	2263
Cadiz Land Inc	♥	118p	-4.0	–	†	–	–
California Engy		1358p	—	–	–	–	–
Chase Manhattan		19⅝xd	0.2	$1.20	FeMyAuNv	27.4	2109
Chrysler		29⅞xd	3.0	60c	ApJyOcJa	10.3	2135
Citicorp		18¼xd	0.7	–	–	23.10	2141
Colgate-Palm		36⅝xd	-3.6	$1.24	FeMyAuNv	22.7	2184
Cont'l Bank		1550p	0.6	60c	DeMrJeSo	31.5	–
Dana		34¾xd	2.0	$1.60	MrJeSeDe	26.5	2306
Data General		722p	-1.0	–	–	–	–
Decora Inds.	♥	131p	5.6	–	†	–	–
Dun & Brad		39¾	3.4	$2.44	MrJeSeDe	13.2	–
Eaton		69	3.5	$2.20	FeMyAuNv	2.2	2416
Echlin		17⅞xd	2.6	70c	JaApJyOc	5.4	3048
FPL		24½xd	1.0	$2.48	MrJeSeDe	25.5	–
Ford Motor		36¼xd	5.9	$1.60	MrJeSeDe	27.4	3613
Gen Elect		60⅞xd	6.8	$2.52	JaApJyOc	3.6	2675
General Host	♥	590p	0.9	34c	†	13.12	–
Gillette		32⅛xd	-3.5	84c	MrJeSeDe	28.4	2695
Hasbro		20⅞	—	24c	FeApJyNv	1.8	–
Honeywell		24¼xd	-.3	89c	MrJeSeDe	25.5	2919
Houston Inds		29¼	2.6	$3.00	MrJeSeDe	10.11	–
Ingersoll-Rand		22⅞xd	1.4	70c	MrJeSeDe	14.5	2979
Lockheed		41⅛	6.8	$2.12	MrJeSeDe	15.2	–
Lowe's	h	2452p	1.1	28c	JaApJyOc	11.7	–
Merrill Lynch		49⅜xd	0.4	$1.20	FeMyAuNv	30.4	3351
Morgan (JP)		42⅞xd	-1.6	$2.40	JaApJyOc	17.3	3416
Morris (Philip)		32½xd	0.3	$2.60	JaApJyOc	5.2	5101
NYNEX		56	5.4	$4.64	FeMyAuNv	27.0	4740
Pall		11¾xd	-5.1	32c	FeMyAuNv	24.1	–
Pennzoil		42⅛xd	2.4	$3.00	MrJeSeDe	25.5	3630
Quaker Oats		46⅞xd	-.6	$1.92	JyOcJaAp	10.5	3738
Rockwell		20⅞xd	3.7	$1.00	MrJeSeDe	12.5	3947
Rep NY		32⅝xd	1.4	$1.08	JaApJySo	10.3	3614
Sears, Roebuck		36¼xd	...	$1.60	JaApJyOc	26.5	5191
Sthwestern Bell	h	25⅞xc	4.1	$1.51	MyAuNvFe	4.7	–
Sun Co		10¾xd	0.6	$1.80	MrJeSeDe	5.5	4155
Tenneco		31¾xd	0.5	$1.60	MrJeSeDe	20.5	–
Texaco		41¾xd	0.6	$3.20	MrJeSeDe	4.5	4260
Time Warner	h	34⅞xd	3.3	28c	MrJeSeDe	27.5	4234
Unitab	♥	409p	2.3	–	†	–	–
US West		28⅝	5.0	$2.14	FbMyAuNv	14.4	–
Varity		2290p	3.9	–	–	1177	–
For Waste Mngmt see WMX Technologies							
WMX Technologies		23⅞	7.1	60c	ApJyOcJa	12.3	4439
Whirlpool		3602pxd	3.1	$1.22	MrJeSeDe	4.3	–
Woolworth	♥	19⅝	2.0	$1.12	MrJeSeDe	26.1	4540

CANADIANS

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BANKS

[illegible]

BREWERS & DISTILLERS

[illegible]

BUILDING MATERIALS

[illegible]

BUILDING MATERIALS - Cont.

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BUSINESS SERVICES

[illegible]

CHEMICALS

[illegible]

CONGLOMERATES

[illegible]

CONTRACTING & CONSTRUCTION

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONICS

[illegible]

ENGINEERING-AEROSPACE

[illegible]

ENGINEERING-GENERAL

[illegible]

ENGINEERING-GENERAL - Cont.

[illegible]

FOOD MANUFACTURING

[illegible]

FOOD RETAILING

[illegible]

HEALTH & HOUSEHOLD

[illegible]

HOTELS & LEISURE

[illegible]

HOTELS & LEISURE - Cont.

[illegible]

INSURANCE BROKERS

[illegible]

INSURANCE COMPOSITE

[illegible]

INSURANCE LIFE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INVESTMENT TRUSTS - Cont.

	Notes	Price	W'k % ch'nge	Div net	Dividends paid	Mkt capEm	Last xd	City line
Scottish Inv	♣†□	197	-.5	4.82	Feb Jul	601.2	4.1	3953
Warrants	□	46½	—	–	–	23.1	–	5883
Scot Mortgage	♣□	191xd	-1.8	4.0	Jul Dec	688.9	24.5	6604
Scot National Inc	♣K□	84xd	-2.3	7.5	ApJyOcJa	134.1	24.5	3851
Cap	□	28	—	–	–	18.9	–	3850
Stepped Pf		151¼	0.5	6.08	Sep Mar	48.5	16.2	3852
Zero Div Pf		210	3.0	–	–	134.1	–	3854
Warrants		3½	—	–	–	0.45	–	3853
Scot Value	†a□	80½xd	1.3	1.9	Jan Jul	38.9	24.5	2706
Sec Alliance	♣†	1443	0.5	36.5	Apr Oct	277.1	1.3	3974
Second Consld	□	136	3.1	–	–	46.2	–	1070
Second Market	♣	328	—	2.0	May	31.7	19.4	3876
Sec Tst Scot	♣□	82½	1.2	3.25	Jul Dec	284.2	10.5	3877
Select Assets	□	121	—	1.2	Apr	35.8	1.5	5885
Eq Ind Ser I		132	0.8	4.25	JaApJeOc	23.3	0.4	4803
Eq Ind Ser II		132	0.8	4.25	JaApJeOc	28.8	0.4	5085
SHIRESCOT	♣H	127xd	3.3	5.25	DeMrJeSe	18.1	24.5	1335
Shires	♣M	280	0.9	16.8	ApJyOcJa	66.6	15.3	4014
11pc Cv Ln '03/04		£127½	—	011%	Sep Mar	28.2	1.3	4012
Sken Select		128	0.5	0.25	Sep	18.2	24.5	1387
Warrants		36	2.9	–	–	1.05	–	1370

MERCHANT BANKS

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividends paid	Last xd
Barings 8pc Cm 2nd Prf		88½	—	8%	–	June Dec	12.0
9¾pc Non-Cum Prf		110	—	9¾%	–	Jan Jul	10.5
Close Bros	♣†	368	-.3	8.0	2.3	Apr Oct	15.3
Hambros	♣□	341	-.3	13.6	1.5	Dec Aug	10.11
7½pc Cv Pf		141	—	7½%	–	Apr Oct	15.2
Joseph (L)	♣	398	—	15.65	–	Jan Sep	14.12
Kleinwort Benson	□	414	-1.2	10.0	1.8	May Oct	1.3
Rea Bros	♣□	42	—	0.5	1.7	May Oct	29.3
Schroders	♣	950	—	11.8	4.5	Nov Apr	29.3
N/V	h	908	—	11.8	4.5	Apr Nov	29.3
Singer & Fried	♣□	64	—	2.6	Φ	Nov Jun	19.4
Warburg (SG)	♣N□	735	0.1	18.8	2.1	Jul Dec	16.11
8pc Cv Pf		249	1.2	8%	–	Mar Sep	1.3
Wintrust		208	1.8	9.3	2.8	Oct Mar	1.3

METALS & METAL FORMING

MISCELLANEOUS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIALS

INVESTMENT COMPANIES

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service.

MEDIA

MOTORS

OIL & GAS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

STORES

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Navan Res IE	♣	54	22.7	–	–	–	–	1185
5pc Ln Notes		54	22.7	–	–	–	–	–
Oryx Gold		62⅞	—	–	–	–	–	3686
‡‡Ovoca Res IE		3½	—	–	–	–	–	1470
RTZ	♣N□	663½	-2.2	19.5	1.3	Dec Aug	15.3	3880
Vizcaya	♣	5¼§	—	–	–	–	–	4193

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- Φ Figures or report awaited
- Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- § Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Not subject to ACT. z Dividend includes a special payment: Cover does not apply to special payment. E Auction basis. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/ or rights issue. H Dividend based on prospectus or other official estimates for 1993. K Dividend based on prospectus or other official estimates for 1992-93. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1993-94. N Dividend based on prospectus or other official estimates for 1992. P Figures based on prospectus or other official estimates for 1994. Q Gross. S Forecast annualised dividend, cover based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xl ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Fairbriar (Contracting & Construction), Scottish-Hydro (Electricity), London Securities (Property) and Stagecoach (Transport). Deletions: Rand Mines Props. (Mines).

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Annual subscription £250.00 stg.

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4 pm close June 4

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993 High	Low	Stock	Div	Yld. %	P/ E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
14⅝	11½	AAR Corp	0.40	3.5	25	511	14	13¾	13⅞	-⅛
29⅛	20	A L Labs A	0.16	0.7	48	395	28¼	27½	27½	-½
69½	54⅝	AMP Inc	1.80	2.6	22	860	31⅞	60¾	61¼	+¼
72¾	65½	AMR			11	2472	71⅞	70⅝	70¾	-⅝
2¼	1¾	ARX			16	42	2⅛	2	2	-⅛
51½	29⅞	ASA	2.00	4.1	32	375	49⅝	49	49¼	+⅛
30¾	22⅝	Abbott Lab	0.68	2.6	1814028	20⅞	25½	25⅞	-1⅛	
12⅞	10¼	AbMbl Pr	0.60	4.3	4	6	11⅝	11½	11½	-¼
11¾	10¾	ACM Gvt In	0.96	8.2		117	u11¾	11⅝	11¾	
10	9⅛	ACM GvOpp	0.80	8.2		307	010	0¾	9¾	-⅛
9⅝	0¾	ACM Gvt Sp	0.80	8.3		175	u9⅝	9⅜	9⅝	+⅛
11⅞	10½	ACM Gvt Se	0.60	6.7		129	11⅛	11	11	
11	9⅝	ACM Man	1.08	9.9		98	16⅞	10¾	10⅞	
6⅞	8⅝	ACM Managd	6.72	6.6		200	9⅛	6	6	
11	7¾	Acme Cleve	0.40	3.7	13	227	u11	10¾	10⅜	-⅛
9¼	9½	Acme Elect			279	112	8⅜	7⅛	0⅜	+½
16	10⅞	Acuson			11	423	10⅞	10¾	10¾	-⅛
32¼	19⅝	Adams Expr	0.48	2.2	1	130	21½	21¼	21⅜	-⅛
68	45½	Ad Micro	3.00	5.2		27	58¾	58¼	58¼	-1
32¾	17⅞	Ad Micro P	3.00	10.7	12	2498	28⅞	28	38	-½
7¾	5½	Advest Grp	6.16	2.7	10	47	6⅛	0	8	-⅛
24⅜	20	Advo Inc	0.68	0.3	22	151	20¾	d20	20⅜	+¾
49⅝	41⅛	Aegon ADR	2.95	6.5	6	78	45⅝	45¼	45⅝	-⅜
55⅞	43⅜	Aetna Lf	2.76	5.1	137	1331	54⅝	53½	53⅝	-1¼
14½	11½	AMI A	0.26	2.0	30	424	13⅜	13⅛	13⅛	-⅛
40⅛	33	Aflac	0.50	1.3	17	935	38⅞	38⅝	38⅝	-⅛
22⅛	10¾	Ahmanson	0.88	4.9	21	732	18⅜	18	18⅛	-¼
7¾	4⅝	Aileen Inc			6	206	5⅞	5¼	5½	+⅛
48½	40⅜	Air Pr Chm	0.80	2.0	17	1511	42⅞	42⅛	42⅝	-¼
26½	18⅛	Airbns Frt	0.30	1.2	99	682	24⅞	24⅝	24¾	-⅛
31½	18¼	Airgas Inc			36	349	30¼	29⅝	29⅝	-¼
14½	10½	Airlease	1.60	11.2	11	48	14⅜	14¼	14¼	-⅛
105	101	AlaPw8.16x	8.16	7.9		2	103½	103	103½	+1½
105½	102½	Alab 8.28C x	8.28	7.6		4u	105½	104¾	104¾	

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- G -

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- H -

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- I -

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- J -

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- K -

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- L -

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- M -

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4 pm close June 4

NYSE COMPOSITE PRICES

Continued from previous page

- S -

1993 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chge Prev. Close
22	18½	S Anita Rt	1.36	7.8	18	364	17⅞	17⅛	17⅞	+⅛
20¾	17	SCOR US Cp	0.32	1.9	214	42	17¼	17⅛	17⅛	-⅛
27⅞	20	SPS Techno	1.28	4.6	30	28	u28	27⅞	28	+⅛
14½	12⅞	Sabine Rt	1.33	9.6	16	74	13⅞	13¾	13¾	-⅛
13¾	8⅞	Safecard	0.20	1.9	10	374	12¾	12⅜	12¾	+⅜
23½	16⅞	Safeg'd Sc			8	59	18	17⅞	17⅞	+⅛
24¾	16¼	SafetyKln	0.36	2.0	24	731	18	17⅛	17¾	-¼
18½	10⅞	Safeway			25	328	16	15⅛	15⅝	-½
3⅝	2	SafewayW95				49	3⅜	3¼	3¼	-⅛
44½	37½	StJoePaper	0.20	0.5	92	19	39	38⅞	39	-⅛
37¾	31	StJoeL&P	1.76	4.8	14	48	36⅞	36⅝	36⅞	+⅛
83¼	76	St Paul's	2.80	3.5	12	404	81¼	80⅝	80⅞	-¼
9⅝	7⅞	Salant Crp			3	28	8¼	8¼	8¼	+⅛
75¼	42½	Sallie Mae	1.20	2.6	10	3467	46⅛	45¼	45½	-⅝
13⅞	13	Salomon Br	0.60	2.7		609	13½	13¼	13¼	-⅛
41⅞	34	SalomonInc	0.64	1.8	19	1049	37⅛	36½	36½	-¼
26⅞	23¼	SanDgo G&E	1.48	5.8	14	628	26⅞	25¾	25½	-⅜
4⅞	3½	SantaFeEDu	0.40	10.7	187	12	3¾	3⅝	3¾	+⅛
11⅞	9⅛	SantaFeERs	0.16	1.5	1100	674	11⅛	10⅞	11	-¼
40¾	35¾	SantaFePac	2.80	7.2	13	21	38⅝	38⅜	38⅝	+⅛
18	12¾	SantaFeSth	0.10	0.8	19	1709	16⅝	16¼	16⅝	+¼
31⅛	23⅞	Sara Lee 2	0.58	2.3	18	12696	25⅛	24⅝	24¾	-⅜
47	40⅛	Scana Corp x	2.74	5.9	16	142	46⅛	45¾	46¾	+2¼

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- V -

- W -

- X - Y - Z -

AMEX COMPOSITE PRICES

4 pm close June 4

NASDAQ NATIONAL MARKET

4 pm close June 4

MONDAY INTERVIEW

Artful wooer gets his way

Ferdinand Piëch, chairman of the Volkswagen management board, speaks to Kevin Done

Ferdinand Piëch has learnt how to smile for much of the time, but under pressure his piercing blue eyes turn icy cold. The unblinking stare intimidates.

His technique for ending discussion of items that do not please is singularly effective. The chairman of the Volkswagen management board makes his point, turns on the stare and falls silent. The pause can be interminable.

On the subject, for example, of his new effective number two, José Ignacio Lopez de Arriortúa, who faces allegations of industrial espionage from former employer General Motors, he says: "We have said quite clearly that allegations that come from the state prosecutor are to be dealt with, in accordance with German law, before the courts and not, *not* through the mass media. Those are the rules of the game in Germany. So, a statement from Mr Lopez, a statement from me. And not one word more. Ja?"

Until the discussion moves on to more acceptable terrain, he waits. Piëch has a reputation for not giving up, for getting exactly what he wants.

Running Audi, the Volkswagen group's executive car division, for four years was not enough for him. He wanted to become chief executive of the group, Europe's biggest carmaker, which includes Seat and Skoda alongside VW and Audi. For a long time, the Vienna-born Piëch, an automotive engineer and a scion of the Porsche family, was seen as only an outside candidate to succeed the urbane and worldly Carl Hahn, who had led VW for a decade.

But in January it was Piëch who took over, his reputation for ruthless restructuring preferred to the engaging philosophising of Daniel Goeudevert, currently VW deputy chairman.

Piëch wanted Lopez, General Motors' global head of purchasing, at his side. He hoped Lopez, the man who acquired an almost legendary reputation for cutting GM's purchasing costs, would help him push through a revolution in the sclerotic Volkswagen bureaucracy.

GM tried desperately to hold on to the services of the mercurial Basque, but Piëch was not to be denied.

Lopez resigned from GM. Then he re-signed for GM, apparently brought back into the fold by an offer from Jack Smith, GM chief executive, to take control of the entire North American operations of the world's biggest vehicle maker.

Lopez prepared a statement explaining why he was staying at GM. It began: "Why did I change my mind? I changed because of the GM people. When I saw the reaction of the people, I said it cannot be. I cannot leave." It ended: "I am very happy to be here, today, at General Motors, the company I love."

The statement was never delivered. A couple of hours before the scheduled GM press conference, Lopez was on his way to Wolfsburg. VW's headquarters.

As Piëch tells it, the move had been planned for several months. The first meeting took place before Christmas and it was a meeting of minds.

"I did not woo him. He got in touch with me. We got to know each other and established that we think alike. For Lopez and me it is not a question of money. It's about maintaining Europe as a centre for manufacturing industry, to defend it and to make it number one in the world again.

"For that you need a combination of skills, someone that comes out of the production discipline – that is him – and someone who comes from engineering and development and its capacity for making quantum leaps – and that's me."

He adds: "We are very different. With this combination we are in the position to make quantum leaps both in the development of new products and in cutting costs. This team only exists in one place in the world. And it had to be two engineers."

Piëch's determination to bring Lopez to VW proved irresistible, but at a cost. Volkswagen has been pitched into a storm of retaliatory legal action from General Motors, which is diverting VW top management's attention from the central issue of rescuing their company from its uncomfortable position as probably the highest-cost volume carmaker in Europe.

In the final quarter of last year the VW group suffered a loss of DM563m (£229m). In the first quarter of this year it followed up with a loss of DM1.25bn. As the former head of the Audi division, who crucially did not have a position on the VW group executive management board, Piëch blames the company's fall into loss firmly on the old management, mentioning the onset of recession only in passing.

"The VW group's current difficulties can only be blamed in small part on the weakness of new car sales – and the same is true for other German manufacturers. The real cause is much more the structural problems of the entire sector, which are now being openly exposed by the recession.

"We have to accept that in the eight years of booming sales we did not do our homework. As soon as sales fell, we are in the red. Our task for the coming years is to come to grips with this structural transformation."

He has started by cutting a large part of the old VW management, including the former finance and production directors. The former head of research and development has been demoted to the divisional board for the VW brand; the former human resources director is now responsible for Asia-Pacific. Many other senior managers just below the executive board have been replaced.

The restructuring measures announced so far include job cuts, fierce pruning of capital investments, and pressure put on components suppliers to cut costs and prices. More economical production methods are being introduced, more parts are to be made common across model ranges. The VW group does not need 12 different designs of cigarette lighters, he says.

Piëch has to move faster and more rigorously than his rivals, because VW has embarked late on restructuring. He says VW must rationalise all of its operations, from raw material purchases to final sales to the customer.

"In eight years of boom we concentrated on expansion and we did not prepare for bad times. We should break even with our plants working at 70 per cent or less of capacity. We came into this crisis with a break-even level of around 100 per cent of capacity.

"From 1989 our sales volumes grew every year and our profits shrank every year. We introduced continuous improvement, or *kaizen* as the Japanese call it, but not with great urgency. The Japanese have been doing it for 15 years. If we do it at the same pace, we will never catch up. With our western culture and western thinking we must make quantum leaps in continuous improvement."

Piëch says that Volkswagen still needs 30-32 hours to build a Golf at its giant Wolfsburg works in Germany; the best Japanese companies take 12 hours to build a car. Within the VW group, however, it has some plants, such as its Polo small car production facility at Pamplona in Spain, that are reaching Japanese efficiency levels.

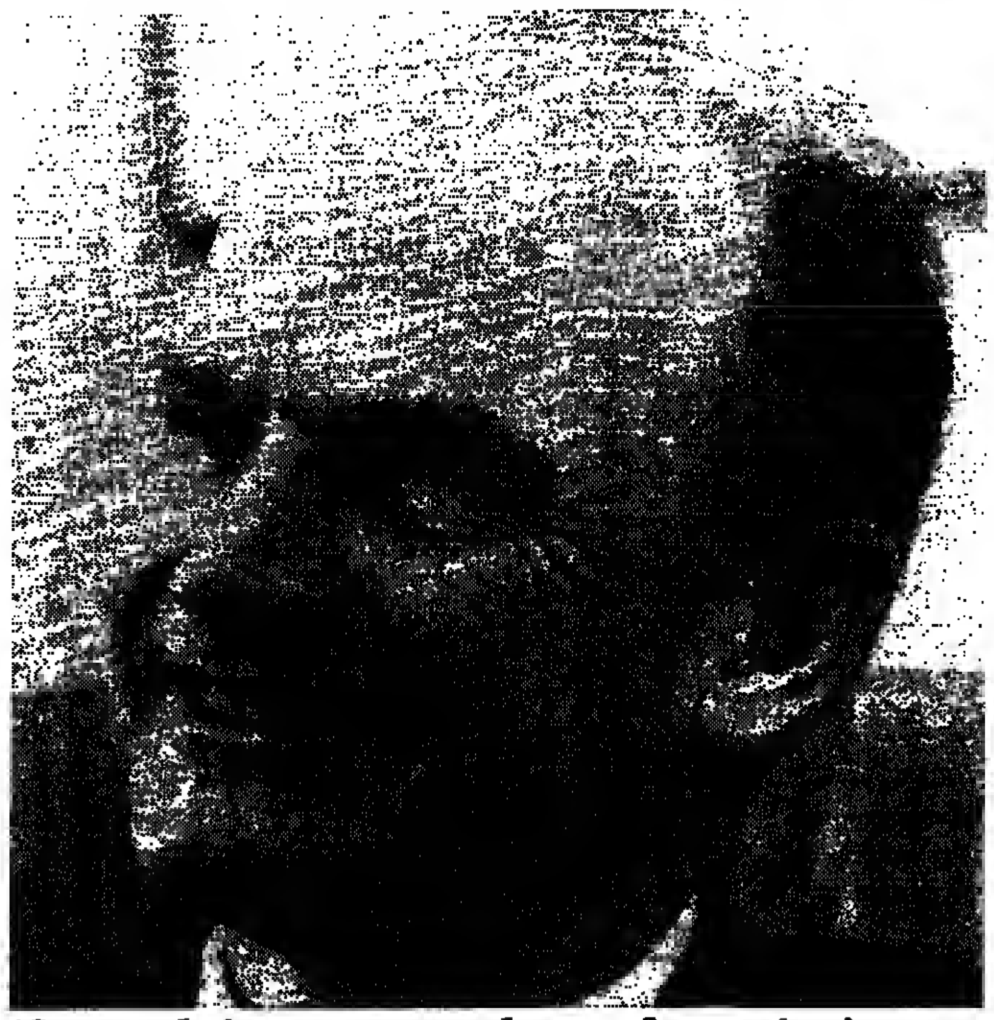
"Before me, the big plants worked like independent companies... If we had a quality problem at one plant, the other did not know how the problem was solved."

Since January VW has taken "drastic measures", but he accepts that it will take five to six years before VW has reached the target of a 70 per cent break-even level.

Even the French, the most effective European carmakers, have had a 20 per cent cost advantage over Volkswagen, says Piëch, and the best Japanese have a 25-30 per cent lead.

He insists that the competitive gap within Europe can be closed in two to three years, however, and he looks to the transformation of the Swiss watch industry for a model to show that the west can also match the Japanese.

"This gives me confidence that with European creativity – it does not just have to be European – with western creativity we are absolutely in the position to face the Japanese and to win."



'Our task is a structural transformation'

PERSONAL FILE

1937 Born Vienna.
1962 Graduated in engineering from Swiss Technical University, Zurich.
1963 Joined Porsche in engine testing.
1971 Porsche technical director.
1972 Joined Audi NSU Auto Union, becoming engineering director in 1975.
1988 Audi chief executive.
1992 Appointed to Volkswagen group management board.
1993 Chairman of VW group management board.

A judgment call for the Fed

MICHAEL PROWSE on AMERICA

At some stage in every economic recovery, a responsible central bank has to start pushing up interest rates. Friday's unexpectedly strong employment report will have helped convince many economists that the US is now at this critical juncture.

The significance of the jobs figures should not be underrated. Government statisticians have pulled the rug from under forecasters by rewriting economic history. The new figures show that non-farm payroll employment grew by more than 200,000 in both April and May, the largest consecutive monthly increases for three years. Figures for the year to March were revised up to show an average monthly gain of about 80,000 jobs, nearly double the previous estimate. Far fewer jobs were lost in the recession than previously thought. After two years of expansion, employment is standing at a record high of 109.99m, having finally surpassed the pre-recession peak reached in June 1990.

Robust job growth and high levels of factory overtime strongly suggest economic growth is accelerating after the depressed first quarter, when output grew at an annual rate of only 0.9 per cent. Indeed, extrapolating from the number of hours worked in April and May, the economy could be growing at an annual rate of nearer 4 per cent than the 2 per cent projected by many forecasters.

Speculation that the Fed wanted to raise rates began in earnest last month after the release of April inflation figures, the third bad set since January. These showed producer and consumer prices rising at an annualised rate for the year to date of 3.4 per cent and 4.5 per cent respectively, a big increase from last year. A few days later press leaks indicated that the Federal Open Market Committee voted at its May 18 meeting to shift from a neutral posture on interest rates to a bias towards increasing them. At the same time, official minutes of the previous FOMC meeting revealed that two Fed governors – Mr Wayne Angell and Mr Lawrence Lindsey – were pushing for an increase in rates as long ago as March.

In the light of the employment report, an early increase in rates may now appear unavoidable. Hawks argue that the Fed must move swiftly to nip inflation expectations before they get out of control. A small increase in rates now – maybe only a quarter or half point, would demonstrate that the Fed was serious about preventing higher inflation and perhaps head off the need for bigger and more disruptive increases next year. By reducing inflation expectations, an increase in short rates could actually bring down long-term rates, thus improving the outlook for growth.

These arguments are powerful: if the Fed were the Bundesbank, it would already have acted. Yet Mr Alan Greenspan, the Fed chairman, may still be hesitating. The reported shift to a bias towards higher rates is less significant than it sounds. The Fed has previously issued such directives without raising rates. Indeed, some Fed-watchers argue that, had the FOMC intended to move in the near future, it would not have leaked the news of a shift in its stance. On this view, the bias towards tightening was a sop to the hawks and a substitute for action: a way of letting markets know that the Fed was serious about controlling inflation without pushing up rates prematurely.

After the disappointment of the first quarter, the argument runs, it would be foolish to rule out further economic setbacks. The economic data are not all encouraging. Factory orders have fallen for two months running. The index of leading indicators has stagnated. Consumer and business confidence remains fragile, partly because of uncertainty about Clinton's economic plan.

Even the employment gains are not all they could be: the increases are skewed towards temporary and part-time positions in service industries and construction. Manufacturing is still shedding labour. At 6.9 per cent the jobless rate is still well above the levels historically associated with rising inflation.

And while most forecasters agree that last year marked the low point for inflation in this business cycle, many believe price figures in the first four months were biased upwards. It is hard to believe that the underlying inflation rate could have risen from 3 per cent to 4 per cent or more so quickly, especially when the recovery was sluggish. Several distortions, such as erratic increases in food, tobacco and airline fare prices, appear about to unwind.

If the Fed tightens now, it will be accused in Washington of wanting to push unemployment back above 7 per cent. Mr Greenspan would much rather justify a rate increase on the grounds that he has to rein back an unsustainably rapid economic expansion. If May producer and consumer price figures, due this week and next, are bad, the Fed will have no room for manoeuvre: it will have to push up rates in order to retain credibility as an inflation fighter. Bad probably means an increase in the consumer price index of 0.3-0.4 per cent.

But if, as many forecasters (including some Fed economists) predict, inflation figures this summer are quite subdued, the Fed's decision will be far more difficult. Given his reputation for gradualism, there is a good chance that Mr Greenspan will choose not to act until the autumn.

Community in trouble

IAN DAVIDSON on EUROPE

With any luck, the Treaty of Maastricht should soon be ratified in all 12 member states. But the European Community is now in deep political and economic trouble, and it will not be resolved by getting the treaty on to the statute books.

The political problem is that the member states have not yet taken on board the full consequences, and therefore have not accepted the full responsibilities, of the post-cold war era. The economic problem is that the process of economic integration, which should be carried a great stride forward by the single market and Maastricht, is in fact in jeopardy from the recession and the growing anxiety over Europe's competitive weaknesses.

France and Germany last week called for a special European summit later this year to revitalise the Community, and their proposal was immediately endorsed by five Christian Democrat governments. What we don't yet have is evidence that the member states have remedies for the Community's problems.

The tell-tale of the post-cold war era, is the comprehensive muddle over the war in Bosnia. After weeks of feverish transatlantic diplomacy, five UN Security Council members last month drafted a 12-point action plan for containing the conflict. But that ambiguous document was really a cloak for continued disagreement between the US and Europe; and the disagreement has not been ended by Friday's Security Council vote to protect "safe areas" in Bosnia.

Sanctions have not stopped the Serbs from killing Moslems nor from conquering more and more Bosnian territory; above all, they have not persuaded the Serbs to submit to the Vance-Owen plan. If that plan is to be brought back from the dead, and then implemented, much more forceful military compulsion would be needed. But troops on the ground, in sufficient numbers credibly to threaten the use of force, would require a substantial US contribution. That is what we shall not get.

The US is determined not to get involved in the war. On the campaign trail Bill Clinton criticised President George Bush for the limpness of his Bosnia policy and promised he would be more vigorous. But now, after much reflection, he has evidently concluded that the Bush policy was not so bad after all. He does not say that Bosnia is Europe's problem, but that is what he means.

The fiasco of the Washington "agreement" was underscored by an off-the-record briefing by a senior state department official, who told journalists the new administration would be adopting a lower international profile, and would be "setting limits on the amount of American engagement in Bosnia and around the world". His words were immediately repudiated by the White House, and secretary of state Warren Christopher assured the world that America would continue to lead "because the need for American leadership is undiminished".

But these were just the gesticulations of national vanity: the state department official was merely telling us what we already knew. If America was the uncontested leader of the west for the past 50 years, it was primarily because of the cold war: Europe and America needed each other desperately, and only America could lead. But leadership is a heavy burden. Now that the Soviet threat has vanished, America has much less incentive (and fewer resources) systematically to bear the burden of leadership seven days a week. In the new loose world after the cold war, Europe may find that sometimes America has quite different strategic objectives, and sometimes simply does not want to get involved at all.

The implications of this for Europe are profound. First, Europe can no longer take America for granted. We share many values, and many common interests; but we may not necessarily have the same strategic objectives.

Therefore, the Community needs to decide whether it is serious about the Maastricht objective of a common foreign policy; if it is, it must go much further than anything in the treaty. If the Community is to be more self-reliant, the tasks of a full-gamut foreign policy can no longer be left to France and Britain: the Germans must recognise that their posture of atonement may be a critical obstacle to the European integration they say they want.

Europe's economic problems are, if anything, even more intractable. When Maastricht was being negotiated, the centrepiece was regarded as the programme for economic and monetary union. But today's most pressing economic problem is high and rising unemployment, and it is not being helped, and may be made worse, by the Emu programme.

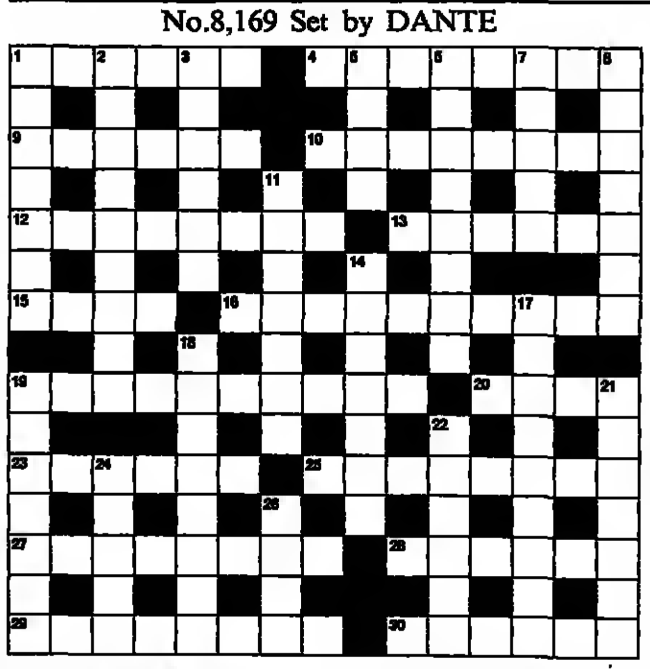
Europe's economic downturn has been aggravated both by the costs of German unification, and by Germany's tight money policy. But the high rate of unemployment may also be due to the relocating of European jobs to low-cost countries elsewhere. A report to the French senate calculates that France has lost 450,000 jobs in clothing, footwear and electronics in the past 15 years; and it estimates that another 2.7m French industrial jobs are vulnerable to the same threat.

Last week an official at the OECD warned privately that rising unemployment could trigger a "social explosion".

The prescription of the French senate report is that "Europe must be protectionist". Free-traders will regard this as outrageous, and typically French. But we should note that it would be all of a piece with the human protectionism that Europe is already practising on a massive scale. We are not ready to do anything to stop the war in ex-Yugoslavia; but we have no shame in merely excluding the hundreds of thousands of refugees fleeing war, death and destruction.

CROSSWORD

No.8,169 Set by DANTE



ACROSS

1 One may appear at dinner in a jacket (6)
4 Test food in court (8)
9 Large duck all over the place? (6)
10 17th century girl straddles a horse (8)
12 Old fighter with fiery temper (8)
13 Dare he twist or stick? (6)
15 Make one's name as a writer (4)
16 An outlandish movement? (10)
19 A Dalmatian sweet (7,3)
20 Beaten by a single stroke (4)
23 Choose one mother – the best! (6)
25 Plan to raise interest (8)
27 Hesitated to have the key changed (8)
28 Tear in distress, in one's eye (6)
29 Move to break concentration (8)
30 Old man chopped down tree (6)

DOWN

1 Various pages lead us to a famous horse (7)
2 Addressing some criticism (7-2)
3 A right squabble about the price-list (6)
5 Staff hold a course (4)
6 Not the straight and narrow path for American entertainment (8)
7 Critical about egghead member of the family (5)
8 Light entertainer used to be magic (7)
11 I'm bored perhaps, due to this? (7)
14 Placed on guard when stranded (7)
17 Noticing nothing unusual in disguise (9)
18 A run caused by panic in the stock market, perhaps (8)
19 Showed no respect and ate greedily (7)
21 Stubborn fellow? I'd heard otherwise (3,4)
22 Test of French in viva-voce (6)
24 Losses from strikes (5)
26 Elizabeth, a superior lady deserted by a sailor (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday June 19.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for trading on 07.06.93 / Final Prices for trading to 10.05.93

1/2 hour period ending	Pool purchase price £/MWh (Provisional)	Pool purchase price £/MWh (Final)	Pool selling price £/MWh (Final)
0030	21.42	18.48	18.48
0100	17.98	18.48	18.48
0130	17.98	19.00	19.00
0200	17.99	34.99	38.61
0230	17.99	34.60	38.57
0300	17.99	22.50	22.50
0330	17.99	19.00	19.00
0400	17.89	18.51	18.51
0430	17.98	18.49	18.49
0500	17.98	18.48	18.48
0530	18.01	18.40	18.40
0600	34.00	18.11	18.11
0630	34.00	18.60	18.60
0700	33.00	23.88	27.39
0730	24.55	25.10	28.91
0800	23.94	26.61	29.92
0830	24.98	25.75	28.97
0900	27.69	26.86	30.15
0930	26.97	26.91	30.19
1000	27.94	29.71	33.10
1030	29.00	29.74	33.14
1100	29.07	29.76	33.16
1130	29.17	32.62	36.14
1200	33.75	36.27	39.95
1230	33.65	36.24	39.89
1300	33.47	36.15	39.70
1330	26.34	26.87	30.03
1400	26.25	26.62	29.78
1430	26.22	25.73	28.86
1500	25.19	25.73	28.86
1530	25.18	25.73	28.85
1600	25.22	25.73	28.85
1630	25.30	25.73	28.86
1700	33.19	35.01	38.42
1730	33.13	35.01	38.42
1800	28.16	25.52	28.86
1830	26.06	25.11	28.25
1900	28.06	25.11	28.24
1930	26.06	25.11	28.25
2000	26.05	25.11	28.26
2030	23.83	24.68	27.82
2100	23.83	25.11	28.26
2130	28.05	37.10	40.58
2200	37.80	37.10	40.59
2230	37.80	25.11	28.25
2300	37.60	24.68	27.84
2330	23.82	23.83	27.06
2400	22.17	23.88	27.11

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds the megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.98/MWh becomes 1.898p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0532-456789 between 8:30am and 5:15pm Monday to Friday.

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Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales. (The same table and notes are printed a second time alongside.)